CAPITAL ADEQUACY MODULE

MODULE	CA: Capital Adequacy
Table of Contents	

MODULE	CA: Capital Adequacy

Table of Contents (continued)

CA-A.1 Purpose

CA-A.1.1 This Module presents requirements that have to be met by insurance licensees, with respect to the level of capital they must maintain. Condition 5 of the Central Bank of Bahrain ('the CBB') Licensing Conditions (cf. Chapter AU-2.5) requires insurance licensees to maintain adequate financial resources, in excess of the minimum requirements specified in Module CA (Capital Adequacy).

CA-A.1.2 The requirements specified in this Module vary according to the Category of insurance licensee concerned, the volume of business undertaken and its inherent risk. The purpose of such requirements is to ensure that insurance licensees maintain levels of capital sufficient to absorb unexpected losses, within a reasonable confidence interval. The capital levels specified here, in other words, are not sufficient to absorb all unexpected losses. Insurance licensees are also required to make their own assessment of the prudent level of capital that they need to hold.

CA-A.1.3 This Module covers requirements to be met by both conventional and Takaful insurers. Specific requirements for Takaful firms are given in Chapter CA-8.

Legal Basis

CA-A.1.4 **This Module contains the CBB's Directive (as amended from time to time) relating to the capital adequacy of insurance licensees, 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 all insurance licensees.**

CA-A.1.5 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

CA-A.2 Module History

CA-A.2.1 This Module was first issued in April 2005 by the BMA, together with the rest of Volume 3 (Insurance). Any material changes 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.

CA-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.

CA-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
CA-1.2	01/07/05	Changes made to definitions of Tier 1 and Tier 2.
CA-4.1	01/07/05	Correction to cross-reference.
CA-4.2	01/07/05	Clarified valuation of amounts receivable.
CA-7.1	01/07/05	Minor correction to list.
CA-8.2	01/07/05	Minor correction.
CA-8.3	01/07/05	Minor correction.
CA-8.4	01/07/05	Minor correction.
CA-8.5	01/07/05	Minor correction.
CA-1.2	01/10/05	Amended requirement for minimum paid-in capital to minimum Tier 1 capital and related transition rules; clarified the definition of Tier 1 capital with respect to reserves and appropriations; clarified definition of Tier 2 in relation to the investment fair value reserve; amended determination of capital available chart in line with other changes in Section CA-1.2.
CA-2.1	01/10/05	Added class of short term medical for solvency calculation of premiums basis and claims basis.
CA-4.2	01/10/05	Clarified the treatment of unlisted equity shares and deleted the reference to managed funds.
CA-7.1	01/10/05	Corrected reference to Group Insurance Firm Return.
CA-3.1	01/01/06	Clarified that rule applies to related parties, as defined in Glossary.
CA-2.1.14	01/04/06	Clarified the calculation of the average gross claims incurred.
CA-4.2.25	01/04/06	Corrected that receivables from contracts of insurance are also included under general asset valuation regulations.
CA-6.1.6	01/04/06	Clarified the definitions of 'assets' and 'liabilities' for purposes of currency matching and localisation requirements.
CA-1.2.8 and CA-1.2.21	01/07/06	Added minority interest as part of the components of Tier 1 and clarified excess tier 2 capital.
CA-2.1.14	01/07/06	Clarified calculation of required solvency margin on the Claims basis.
CA-4.3.2	01/07/06	Clarified category limits for assets linked to long-term liabilities.
CA-8.4.3	01/07/06	Clarified definition of capital available for a takaful fund.
CA-A.1.4	01/2007	New Rule introduced, categorising this Module as a Directive.
CA-1.2.8 and 1.2.21	01/2007	Minority interest was deleted as part of Tier 1 capital as solvency test is performed on an unconsolidated basis.
CA-1.2.21	01/2007	Deleted reference to negative reserves as no discounting is permitted that would give rise to negative reserves. Clarified that there should be a deduction for solvency margin deduction required for branches in other jurisdictions. Added a deduction for assets pledged or provided as collateral.
CA-2.1.8A	01/2007	The required solvency margin for pure reinsurers, other than for the reinsurance of linked business, is to be calculated in accordance with Paragraph CA-2.1.12.
CA-2.1.15	01/2007	The reference period for the calculation of average gross claims and met claims incurred is now limited to 3 years. The 7-year option has been deleted.
CA-4.2.25	01/2007	Clarified that all amounts due under contracts of insurance and reinsurance that have been due for more than 6 months must be valued at nil.
CA-1.2.1 and1.2.2	10/2007	Minimum Tier 1 capital only applies to Bahraini insurance firms.

CA-A.2 Module History (continued)

CA-A.2.3 (continued)

Module Ref.	Change Date	Description of Changes
CA-4.2.25A	10/2008	Added a Paragraph to deal with the valuation of unearned reinsurance premiums.
CA-8.4.6A	10/2008	Clarified treatment of income generated from the assets forming part of the free loan to the Takaful fund.
CA-8.4.13	10/2008	Introduced Rules for transition period for newly established Takaful funds.
CA-6.1.1	04/2009	Clarified non-application of localisation requirements to unit-linked products.
CA-8.4.8	04/2009	Paragraph deleted on funding of deficit for Family Takaful funds
CA-1.2.4	10/2009	Paragraph amended to allow for the zillmer adjustment as outlined in Paragraph CA-5.1.24
CA-3.1	10/2009	Section amended to reemphasize the need for separate accounting funds for different lines of business and different funds.
CA-5.1	10/2009	Various amendments in line with consultation document issued in July 2009.
CA-A.1.4	01/2011	Clarified legal basis
CA-1.3.1 and CA-1.3.1A	04/2012	Updated capital requirements for insurance brokers.

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

CA-B.1 Bahraini Insurance Licensees and Overseas Insurance Licensees

CA-B.1.1 **This Module applies to both Bahraini insurance licensees and overseas insurance licensees.**

CA-B.1.2 While the solvency requirements for Bahraini insurance firms and for overseas insurance firms are identical (as per Chapter CA-2), the calculation of the capital available varies based on the legal structure of the licensee, i.e. whether it is a locally incorporated company or a branch operation.

CA-B.1.3 **Bahraini insurance firms must calculate their capital available based on the shareholder's equity of the licensee (and other allowable elements of regulatory capital, as specified in Chapter CA-1). Overseas insurance firms must calculate their capital available based on their audited net assets, determined in accordance with accounting standards that would be applicable if they were a joint stock company incorporated in Bahrain.**

CA-B.2 Single Insurance Entity and Consolidated Insurance Entity

Single Insurance Entity (Unconsolidated)

CA-B.2.1 **Insurance licensees must apply the requirements of this Module as a single insurance entity, i.e. at the level of the unconsolidated company or branch. Any insurance activities of branches of Bahraini insurance licensees are included in the single insurance entity and are not subject to separate capital and solvency requirements.**

Consolidated Insurance Entity

CA-B.2.2 **Overall capital and solvency requirements must be calculated for the consolidated Bahrain group (including the Bahrain insurance parent and subsidiaries). Bahraini insurance licensees must in addition apply the requirements of this Module at the consolidated level.**

CA-B.2.3 For purposes of Paragraph CA-B.2.1, where branches and subsidiaries are operating in jurisdictions outside of Bahrain, and are subject to capital requirements in these other jurisdictions that are equivalent or more stringent than the Bahrain requirements, these licensees will be considered to be in compliance with the requirements of this Module.

CA-B.2.4 In instances where insurance licensees are uncertain as to the equivalency of the capital requirements of other jurisdictions where they operate, they should discuss these requirements with the CBB.

CA-1.1 General Requirements

CA-1.1.1 **In accordance with Principle of Business 9, <u>insurance licensees</u> must maintain adequate human, financial and other resources sufficient to run their business in an orderly manner.**

CA-1.1.2 **In the event that an <u>insurance licensee</u> fails to meet the capital and solvency margin requirements outlined in this Module, it must, on becoming aware that it has breached these Rules, notify the CBB immediately and within 25 calendar days submit a plan to the CBB demonstrating how its <u>capital available</u> will be restored and the timeframe for that restoration to occur.**

CA-1.1.3 Should the <u>insurance licensee</u> fail to meet the requirements of this Module, the CBB may impose enforcement measures outlined in Module EN.

CA-1.1.4 Unless otherwise indicated, all <u>insurance licensees</u> must implement the requirements of Module CA, effective 31 December 2005 (Refer to ES-2.5.1).

CA-1.2 Calculation of Capital Available for Insurance Firms

CA-1.2.1 **A Bahraini insurance firm must maintain sufficient capital to enable it to meet at all times its insurance and other obligations. The minimum Tier 1 capital for Bahraini insurance firms is BD 5 million, except for those firms whose business is limited to reinsurance. Bahraini insurance firms whose business is limited to reinsurance must have minimum Tier 1 capital of BD 10 million. Overseas insurance firms and captive insurers are not subject to a minimum Tier 1 capital but must comply with the Required Solvency Margin and minimum fund, as defined in Chapter CA-2. In addition, all insurance firms must at all times maintain a capital available in excess of the greater of the Required Solvency Margin and the minimum fund, as defined in Chapter CA-2.**

CA-1.2.2 Bahraini insurance firms licensed prior to 1 April 2005 that do not meet the requirements of Paragraph CA-1.2.1, will be required to meet the requirements for minimum Tier 1 capital by 31 December 2007. In addition, the requirements to maintain a capital available in excess of the greater of the Required Solvency Margin and minimum fund must be met by insurance firms by 31 December 2005. Insurance firms who are in run-off and whose license is restricted from entering into new contracts of insurance as per Paragraph GR-8.1.8, are grandfathered and not required to apply the requirements of Paragraph CA-1.2.1 (refer to ES-2.6.2).

CA-1.2.3 **An insurance firm must ensure that at all times its capital available does not fall below the minimum fund. In the event that an insurance firm's capital available does fall below the minimum fund, the insurance firm must inject capital and must notify the CBB immediately. Further, the insurance firm must cease to effect any new contracts of insurance, including renewals of existing contracts unless explicitly permitted to do so by the CBB.**

Limitation on Valuation of Capital Instruments

CA-1.2.4 **For the purposes of determining an insurance firm's capital available, no value is attributed to any other instrument or resource of an insurance firm other than those identified in Paragraphs CA-1.2.8, CA-1.2.12 and CA-5.1.24 without the consent in writing of the CBB. Without limiting the generality of this Rule, no value is attributed to any of the following:**

(a) Any implicit items (which relate to future profits, zillmerising and hidden reserves); and

(b) The unpaid element of any issued shares some or all of which are not 'fully paid' shares.

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Capital Available: Tier 1 and Tier 2

CA-1.2.5 An insurance firm's capital available, for the purposes of this Module, comprises two tiers. Tier 1, or core capital, comprises the highest quality capital elements that fully meet all the essential characteristics of capital. Tier 2, or supplementary capital, comprises other instruments that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall financial strength of the insurance firm. Insurance firms may hold Tier 2 capital in excess of the limits in Paragraph CA-1.2.7, but any such excess is not counted as capital available for the purposes of the requirements in this Module.

CA-1.2.6 **The capital available of an insurance firm comprises the sum of its Tier 1 and Tier 2 capital resources, subject to the limits in Paragraph CA-1.2.7.**

CA-1.2.7 **Total Tier 2 capital cannot exceed 100% of total Tier 1 capital. Lower Tier 2 capital of the type identified in Paragraph CA-1.2.12 (f), (g) and (h) cannot exceed more than 50% of total Tier 1 capital.**

Tier 1 Capital

CA-1.2.8 **Tier 1 capital comprises:**

(a) Paid-up ordinary shares (net of treasury shares);

(b) Share premium reserve;

(c) Perpetual non-cumulative preference shares.

(d) All disclosed reserves brought forward, that are audited and approved by the shareholders, in the form of legal, general and other reserves created by appropriations of retained earnings, excluding fair value reserve;

(e) Unappropriated retained earnings, excluding cumulative unrealised fair value gains, brought forward;

(f) Audited current year's earnings net of unrealised fair value gains and before taxes; and

(g) In the case of an overseas insurance firm, the audited net assets (excluding any unrealised fair value gains and the surplus assets of long-term funds), determined in accordance with accounting standards that would be applicable if it were a joint stock company incorporated in Bahrain.

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

CA-1.2.9 **Tier 1 capital elements included in SubParagraph CA-1.2.8 (a) to (c) can only be so included if:**

(a) It is issued by the insurance firm;

(b) It is fully paid, and only that portion of the shares for which payment has been received is otherwise included; and

(c) It:

(i) Cannot be redeemed at all or can only be redeemed on a winding up of the insurance firm; or

(ii) Is only redeemable at the option of the insurance firm and complies with any conditions applicable to joint stock companies in Bahrain;

(d) Any coupon is non-cumulative;

(e) It is able to absorb losses;

(f) It ranks for repayment upon winding up no higher than a share of a company incorporated under the Joint Stock companies law of Bahrain;

(g) Coupons on it can only be paid out of accumulated realised profits;

(h) No coupon is payable at a time when the insurer is in breach of Paragraph CA-1.2.1 and no coupon is payable to the extent that, after paying it, the insurance firm would breach that Rule; and

(i) The proceeds of issue are immediately and fully available to the insurance firm.

CA-1.2.10 Tier 1 capital has the following characteristics:

(a) It is able to absorb losses;

(b) It is permanent;

(c) It ranks for repayment upon winding up after all other debts and liabilities; and

(d) It has no fixed costs, that is, there is no inescapable obligation to pay dividends or interest.

CA-1.2.11 **An insurance firm must not redeem any tier 1 instrument that it has included in its Tier 1 capital resources for the purpose of Chapter CA-1 unless it has notified the CBB of its intention at least one month before it does so.**

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Tier 2 Capital

CA-1.2.12

Tier 2 capital includes the following liabilities of an insurance firm, to the extent permissible by Paragraph CA-1.2.7:
(a) Interim net income, excluding 55% of any unrealised fair value gains, reviewed by the external auditors in accordance with International Standards on Auditing (ISA);
(b) Perpetual cumulative preference shares;
(c) Mandatory convertible notes and similar capital instruments;
(d) Perpetual subordinated debt;
(e) Any other hybrid (debt/equity) capital instruments of a permanent nature;
(f) Dated subordinated debt with an original term of at least 5 years;
(g) Limited life redeemable preference shares with an original term of at least 5 years;
(h) Any other similar limited life capital instruments with an original term of at least 5 years; and
(i) Investment fair value reserve (IAS 39) on investments held available for sale, discounted to 45%.

CA-1.2.13

Tier 2 capital includes forms of capital that do not meet the requirements for permanency and absence of fixed servicing costs that apply to Tier 1 capital. Tier 2 capital resources are split into upper and lower tiers, based on the permanency of the instruments. For example:
(a) Capital which is perpetual (that is, has no fixed term) but cumulative (that is, servicing costs cannot be waived at the issuer's option, although they may be deferred – for example cumulative preference shares) may be included in upper Tier 2 capital; and
(b) Capital which is dated, i.e. not perpetual (that is, it has a fixed term) and which may also have fixed servicing costs that cannot generally be either waived or deferred, such as subordinated debt are included in lower Tier 2 capital. Such capital should normally be of a medium to long-term maturity (that is, an original maturity of at least five years).

CA-1.2.14

Lower Tier 2 capital instruments (ref CA-1.2.12 (f) to (h)), must have a minimum fixed term to maturity in excess of 5 years. During the last 5 years to maturity, a cumulative discount (or amortisation) factor of 20% per year must be applied to reflect the diminishing value of these instruments as a continuing source of strength.

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Tier 2: Hybrid Capital Instruments

CA-1.2.15 Hybrid capital instruments are instruments that combine the features of debt and equity in that they are structured like debt, but exhibit some of the loss absorption and funding flexibility features of equity.

CA-1.2.16 **A hybrid capital instrument must meet the following conditions before it can be included in an insurance firm's upper Tier 2 capital resources:**

(a) It must meet the general conditions described in Paragraph CA-1.2.17;

(b) It must have no fixed maturity date;

(c) The contractual terms of the debt agreement must provide for the insurance firm to have the option to defer any interest payment on the debt; and

(d) The contractual terms of the debt agreement must provide for the loss-absorption capacity of the debt and unpaid interest, whilst enabling the insurance firm to continue its business.

CA-1.2.17 **A hybrid capital instrument cannot form part of the capital resources of an insurance firm unless it meets the following conditions:**

(a) The claims of the creditors must rank behind those of all unsubordinated creditors;

(b) No amounts due may be payable:

(i) At a time when the insurance firm is in breach of Paragraph CA-1.2.1; or

(ii) If the payment would mean that the insurance firm would be in breach of Paragraph CA-1.2.1;

(c) The only events of default must be non-payment of any amount falling due under the terms of the instrument or the winding-up of the insurance firm;

(d) The remedies available to the subordinated creditor in the event of non-payment or other breach of the written agreement or instrument must be limited to petitioning for the winding up of the insurance firm or proving the debt in a liquidation of the insurance firm;

(e) Any events of default and any remedy described in (d) must not prejudice the matters in (a) and (b);

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

(f) In addition to the requirements about repayment in (a) and (b), the debt must not become due and payable before its stated final maturity date (if any) except on an event of default complying with (c);
(g) The debt agreement or terms of the instrument are governed by the laws of Bahrain;
(h) To the fullest extent permitted under the laws of the relevant jurisdictions, creditors must waive their right to set off amounts they owe the insurance firm against subordinated amounts included in the insurance firm's capital resources owed to them by the insurance firm;
(i) The terms of the instrument must be set out in a written agreement that contains terms that provide for the conditions set out in (a) to (h);
(j) The debt must be unsecured and fully paid up; and
(k) The insurance firm has obtained an external legal opinion stating that the requirements in (a) to (j) have been met.

CA-1.2.18 Subparagraph CA-1.2.17 (g) does not apply if the insurance firm has obtained an external legal opinion confirming that a degree of subordination has been achieved under the law that governs the debt and the agreement that is equivalent to that which would have been provided under the laws of Bahrain.

CA-1.2.19 An insurance firm must not amend the terms of the debt and the documents referred to in Subparagraph CA-1.2.17 (i) unless:
(a) At least one month before the amendment is due to take effect, the insurance firm has given the CBB notice in writing of the proposed amendment; and
(b) That notice includes confirmation that the legal opinion referred to in Subparagraph CA-1.2.17 (k) continues in full force and effect in relation to the terms of the debt and the documents as proposed to be so amended.

CA-1.2.20 An insurance firm must notify the CBB of its intention to repay a hybrid capital instrument that is included in its capital resources before its contractual repayment date (if any) at least six months before the date of the proposed repayment, providing details of how it will meet its capital available requirement after such repayment.

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Determination of Capital Available

CA-1.2.21 Every insurance firm must determine its capital available in accordance with this Rule:

Determination of Insurance Firm's Capital Available	
	Tier 1 Capital
	Paid-up ordinary shares (net of treasury shares).
	Share premium reserve.
	Perpetual non-cumulative preference shares.
	All disclosed reserves brought forward, that are audited and approved by the shareholders, in the form of legal, general and other reserves created by appropriations of retained earnings, excluding fair value reserve.
	Unappropriated retained earnings, excluding cumulative unrealised fair value gains, brought forward.
	Audited current year's earnings net of unrealised fair value gains and before tax expenses.
	Overseas Insurance Firms Only: audited net assets, excluding any unrealised fair value gains and surplus assets in long-term funds.
(A)	Total Tier 1 Capital
	Tier 2 Capital – Upper Level
	Interim net income, excluding any unrealised fair value gains, reviewed by the external auditors in accordance with International Standards on Auditing (ISA).
	Perpetual cumulative preference shares.
	Mandatory convertible notes and similar capital instruments.
	Perpetual subordinated debt
	Other hybrid (debt/equity) capital instruments of a permanent nature.
	Investment fair value reserve (IAS 39) and any unrealised fair value gains included in retained earnings, both discounted to 45%.
(B)	Total Tier 2 Capital – Upper Level

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

	Tier 2 Capital – Lower Level
	Limited life redeemable preference shares with an original term of at least 5 years.
	Dated subordinated debt with an original term of at least 5 years.
	Any other similar limited life capital instruments with an original term of at least 5 years.
(C)	Total Tier 2 Capital – Lower Level: before excess deduction
(D)	Total Tier 2 Capital (B plus C)
(E)	Excess Tier 2 Capital – Lower Level = (C)- [(A) times 50%)] (if negative, excess is 0)
(F) = (D)-(E)	Total Tier 2 Capital – Lower Tier adjusted
(G)	Excess Tier 2 Capital = (F)- [(A) times 100%)] (if negative, excess is 0)
(H) = (F) – (G)	Total Tier 2 Capital
	Deductions from Capital
	Valuation asset differences.
	Inadmissible assets by asset category.
	Inadmissible assets in excess of counterparty limits.
	Required margins of solvency for branches in other jurisdictions.
	Current year's losses, before any tax expenses.
	Dividends paid and declared.
	Assets pledged or provided as collateral where there is no offsetting liability.
	Tax expenses.
	Other appropriations not included as charges to profit and loss statement (e.g. Directors' remuneration, donations).
	Other.
(I)	Total Deductions from Capital
(A)+(H)-(I)	CAPITAL AVAILABLE

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

CA-1.2.22

In Paragraph CA-1.2.21, under 'Deductions from Capital' the deductions for:

(a) Inadmissible assets by asset type; and
(b) Inadmissible assets in excess of counterparty limits

only apply to those amounts in respect of assets, other than those assets from linked long-term insurance.

CA-1.2.23

CA-1.3 Capital Requirements for Insurance Brokers

CA-1.3.1 **Bahrain insurance brokers must maintain at all times the greater of:**
(a) A minimum net assets value of BD 50,000;
(b) 4% of fiduciary liabilities; and
(c) 4% of annual income from global insurance broking activities.

CA-1.3.1A **For semi-annual reporting under Form IBRS (see Section BR-1.4A), with regards to Subparagraph CA-1.3.1(c), the calculation of the annual income must be done on a moving average year basis. As an example, for the reporting period ending 30th June 2011, annual income from global insurance broking activities covers the period of 1st July 2010 to 30th June 2011.**

CA-1.3.2 **There are no minimum capital and net asset requirements for overseas insurance brokers. However, for overseas insurance brokers, financial statements of the parent company must be submitted to the CBB for review, in order to assess the financial stability of the group on a global basis.**

CA-1.3.3 For purposes of Paragraph CA-1.3.1, global insurance broking activities refers to annual income of a Bahrain incorporated brokerage firm including any income being generated by any of the firm's brokerage subsidiaries and/or branches operating in other jurisdictions.

CA-1.3.4 In respect of licensees who were carrying out activities that fall within the definition of the regulated activity of insurance broker prior to 1 April 2005, the requirements of Paragraph CA-1.3.1 will apply from 1 January 2007 (refer to ES-2.4.2 for transition rules).

CA-1.3.5 **For the purposes of this Section, 'net assets' means the excess of assets over liabilities. The minimum net assets value is to be determined by excluding all intangible assets and in accordance with accounting principles generally accepted in Bahrain.**

CA-1.3.6 **The value of debtors taken into account as assets available to support financial requirements must not exceed the amount which the insurance broker expects to receive net of any significant costs associated with making the recovery.**

CA-1.3.7 **Insurance brokers must make adequate provisions for any debts which are unlikely to be received or recovered from the debtors.**

CA-1.4 Capital Requirements for Insurance Consultants and Insurance Managers

CA-1.4.1 **Insurance consultants and insurance managers must possess financial resources commensurate with the scale and nature of their insurance consultancy or management activities.**

CA-1.4.2 In determining the adequacy of the financial resources of insurance consultants and insurance managers, the CBB will consider, amongst other things:

(a) The volume of business undertaken by the licensee;
(b) The licensee's capacity to meet its financial obligations towards all clients in a timely and professional manner; and
(c) The licensee's future business plans considering the capital available to meet all obligations and additional sources of capital when and if required.

CA-1.4.3 There are no minimum capital and net assets requirements applicable to insurance consultants and insurance managers. However, Section AU-2.5 (Licensing Conditions: Financial Resources) requires all licensees to maintain adequate financial resources and to conduct their business in a prudent manner.

CA-2.1 Solvency Margin Requirements

CA-2.1.1

Every Bahraini insurance firm must calculate a required solvency margin in accordance with the requirements in this Chapter. The solvency margin must include the operations of all branches of the insurance firm, whether these undertake operations within Bahrain or in another jurisdiction.

CA-2.1.2

Every overseas insurance firm, other than a pure reinsurer, must calculate a 'Bahrain Required Solvency Margin' in accordance with the requirements in this Chapter.

CA-2.1.3

All overseas insurance firms, including pure reinsurers, must provide an equivalent or substantially equivalent solvency margin calculation, submitted to a supervisor in another jurisdiction for the company as a whole, in accordance with Chapter CA-7. In instances where pure reinsurers are not subject to supervisory requirements in another jurisdiction, they must calculate a Required Solvency Margin in accordance with this Chapter for the company as a whole.

CA-2.1.4

For insurance firms licensed prior to 1 April 2005 and allowed to carry on both long-term insurance business and general insurance business (refer to Paragraph AU-1.1.15), the insurance firm must calculate a separate Required Solvency Margin or a Bahrain Required Solvency Margin in respect of the two different types of insurance business and maintain separate solvency margins.

Minimum Fund

CA-2.1.5

For the purposes of this Module 'minimum fund' means for:
(a) Category 1 Insurer: BD 300,000;
(b) Category 2 Insurer: BD 500,000;
(c) Category 3 Insurer: BD 400,000;
(d) Category 4 Insurer: The relevant minimum fund for Category 1 or 2 (depending on the type of general business underwritten) PLUS the Category 3 minimum. These amounts are to be maintained separately by the insurance firm;.
(e) Category C1 Insurer: BD 75,000; and
(f) Category C2 Insurer: BD 300,000.

CA-2.1 Solvency Margin Requirements (continued)

CA-2.1.6

For purposes of Paragraph CA-2.1.5, the following definitions apply:

(a) Category 1 insurer: an insurance firm whose license is limited to any of the following types of insurance: fire; damage to property; and miscellaneous financial loss;

(b) Category 2 insurer: an insurance firm whose license includes any of the following types of insurance: marine cargo and marine hull; aviation; motor; engineering; liability; and any other general insurance class not specifically mentioned. These may only be in addition to any Category 1 activities;

(c) Category 3 insurer: an insurance firm whose license includes any of the following types of insurance: life insurance of all types; personal accident whose term is over 1 year; and savings fund accumulation insurance;

(d) Category 4 insurer: an insurance firm, licensed prior to 1 April 2005 and whose license includes any of the types of insurance specified in Category 3 and in Category 1 or 2, or both;

(e) Category C1 insurer: an insurance firm whose business is restricted to insuring only the insurance risks (other than liability risk) of its shareholder(s) or those of subsidiary or associated companies of its shareholder(s); and

(f) Category C2 insurer: an insurance firm whose business is restricted to insuring only the risks of its shareholder(s) or of subsidiary or associated companies of its shareholder(s) and whose business may include liability risks, subject to the CBB being satisfied that the activity, capital structure and management provide sufficient protection to potential third party claimants.

Calculation of Solvency Margin

CA-2.1.7

The Required Solvency Margin to be calculated by an insurance firm subject to any of the requirements in Paragraphs CA-2.1.1 to CA-2.1.4 must be determined:

(a) As regards long-term insurance business, in accordance with Paragraph CA-2.1.9, and

(b) As regards general insurance business, in accordance with Paragraph CA-2.1.12.

CA-2.1 Solvency Margin Requirements (continued)

CA-2.1.8 The Bahrain Required Solvency Margin for overseas insurance firms must be calculated by applying Paragraph CA-2.1.7, but only to business booked in the Bahrain overseas insurance firm.

CA-2.1.8A The Required Solvency Margin for companies whose business is limited to reinsurance, except for reinsurance of linked business, is to be calculated in accordance with Paragraph CA-2.1.12.

CA-2.1 Solvency Margin Requirements (continued)

Long-term Insurance Business

CA-2.1.9

For long-term insurance business the solvency margin must be determined by taking the aggregate of the results arrived at by applying the calculations described in Paragraph CA-2.1.10 ('the mathematical reserves basis calculation') and Paragraph CA-2.1.11 ('the capital sum at risk basis calculation'). Where the aggregate falls below the minimum fund, it must be substituted by the amount of the minimum fund.

CA-2.1.10

The mathematical reserves are defined as the provision made by an insurer to cover liabilities (excluding liabilities which have fallen due) arising under or in connection with long-term insurance business. The mathematical reserves basis calculation for:

(a) Traditional long-term insurance business must be either 2% of mathematical reserves before deduction for reinsurance cessions or 4% of mathematical reserves after deduction for reinsurance cessions whichever produces the higher result;
(b) The mathematical reserves basis calculation for linked long-term insurance business where the company bears an investment risk must be as in Subparagraph CA-2.1.10 (a); and
(c) The mathematical reserves basis calculation for linked long-term insurance business where the company bears no investment risk must be either 0.5% of mathematical reserves before deduction for reinsurance cessions or 1% of mathematical reserves after deduction for reinsurance cessions whichever produces the higher result.

No negative value can be used as the mathematical reserve under any policy.

CA-2.1.11

The capital sum at risk is defined as the benefit amounts payable as a consequence of the happening of the contingency covered by the policy contract less the mathematical reserves in respect of the relevant contract. The capital sum at risk calculation is the greater of :
(a) 0.15% of the capital sum at risk before deduction for reinsurance cessions; or
(b) 0.30% of the capital sum at risk after deduction for reinsurance cessions.
In either case no negative value can be used as the capital sum at risk under any policy.

CA-2.1 Solvency Margin Requirements (continued)

General Insurance Business

CA-2.1.12

For general insurance business, the solvency margin must be determined by taking the higher of the two results arrived at by applying the calculations described in Paragraph CA-2.1.13 ('the premium basis calculation') and Paragraph CA-2.1.14 ('the claim basis calculation'). Where the higher of the two results falls below the minimum fund, it must be substituted by the amount of the minimum fund.

CA-2.1.13

The premium basis calculation for general insurance business is determined by applying the following formula:

Gross Premium Written X Reinsurance Allowance X Risk Factor (for each class of business)

Where:

Gross Premium Written =

Premium written in the financial year (or annualised where the financial year is other than 12 months)

Reinsurance Allowance (Premium basis) = (calculated on total business)

the higher of 0.5 or (Total Net Premium Written /Total Gross Premium Written)

Risk Factor =

Class of insurance	Risk Factor (general insurance)	Risk Factor (Category C1 captive)	Risk Factor (Category C2 captive)
(a) Fire	15%	12%	12%
(b) Damage to property	15%	12%	12%
(c) Miscellaneous financial loss	15%	12%	12%
(d) Marine cargo, marine hull	20%	20%	20%
(e) Aviation	20%	20%	20%
(f) Motor	20%	20%	20%
(g)Engineering	20%	20%	20%
(h) Liability	20%	20% (Category C2)	20%
(i) Medical (short term ≤ 1 year)	20%	20%	20%
(j) Other	20%	20%	20%

CA-2.1 Solvency Margin Requirements (continued)

CA-2.1.14

The claim basis calculation for general insurance business is determined by applying the following formula:

Average Gross Claims Incurred in the reference period X Reinsurance Allowance X Risk Factor (for each class of business)
Where:

Average Gross Claims Incurred =

Gross Claims Incurred in the reference period (see CA-2.1.15) divided by the number of years covered by the reference period (or annualised where any financial year in the reference period is other than 12 months)

Reinsurance Allowance (Claim basis) = (calculated on total business)

the higher of 0.5 or (Total Average Net Claims Incurred in the reference period/Total Average Gross Claims Incurred in the reference period)

Risk Factor =

(a) Fire	20%
(b) Damage to property	20%
(c) Miscellaneous financial loss	20%
(d) Marine cargo, marine hull	25%
(e) Aviation	25%
(f) Motor	25%
(g) Engineering	25%
(h) Liability	25%
(i) Medical (short term ≤ 1 year)	25%
(j) Other	25%

CA-2.1.15

For the purposes of Paragraph CA-2.1.14 the reference period for all classes of business must be the three most recent financial years up to and including the current financial year. In instances where the insurance firm has been in business for less than three years, the claims basis calculation shall be equal to 0.

CA-3.1 Long-Term Insurance Business

CA-3.1.1 **Where an insurance firm carries on long-term insurance business, including traditional long-term insurance business or linked long-term insurance business or both:**

(a) It must maintain a separate account and separate books of accounts in respect of each kind of business and unit fund; and

(b) The receipts of each kind of business must be entered in the account maintained for that business and must be carried to and form a separate long-term insurance fund with an appropriate name.

CA-3.1.1A **Where the bonus policy of the with-profits business explicitly mentions that the profit (or bonuses) are determined by the performance of the life fund, separate accounting for such funds must be maintained.**

CA-3.1.1B The requirement in Paragraph CA-3.1.1A is to ensure that sources of profits arising from with-profits block of business will be distributed according to the agreed profit sharing mechanisms (which may include a proportion to the shareholders) and sources of profits arising purely from non-profits business will be allocated to shareholders.

CA-3.1.2 **An insurance firm which carries on long-term insurance business or linked long-term insurance business must maintain such accounting and other records as are necessary for identifying:**

(a) The assets representing the fund maintained by it under Paragraph CA-3.1.1 above; and

(b) The liabilities attributable to each kind of business which it carries on.

CA-3.1.3 **Other than the explicit exceptions included in Paragraphs CA-3.1.4 and CA-3.1.5 of this Module, an insurance firm's long-term insurance business assets must only be applied for the purposes of its long-term insurance business and must not be made available for any other purpose of the insurance firm. This does not however prevent the reimbursement of expenditure borne by other assets (in the same or the preceding financial year) in discharging liabilities wholly or partly attributable to the long-term insurance business.**

CA-3.1.4 **Where an actuarial investigation shows that the value of the long-term insurance business assets exceeds the amount of the liabilities attributable to the long-term insurance business, the restriction does not apply to those assets that represent the excess.**

CA-3.1.5 **Paragraph CA-3.1.3 above does not prevent an insurance firm from exchanging, at fair market value, long-term insurance business assets for other assets of the insurance firm.**

CA-3.1 Long-Term Insurance Business (continued)

CA-3.1.6 A long-term insurance firm must not enter into a financial transaction, and must take reasonable steps to ensure that any subsidiary company or associate company does not enter into such a transaction, with any related party where the aggregate of the value of any assets and liabilities arising out of such transactions exceeds 5% of the total amount standing to the credit of the insurer's long-term insurance funds.

CA-3.1.7 An insurance firm which carries on long-term insurance business in Bahrain must have adequate arrangements for securing that transactions affecting assets of the insurance firm (other than transactions outside of its control) do not operate unfairly between the long-term insurance fund or funds and the other assets of the insurance firm or, in a case where the insurance firm has more than one 'identified fund', between those funds.

CA-3.1.8 An identified fund means assets representing the insurance firm's receipts from a particular part of its long-term insurance business that can be identified as such by virtue of accounting or other records maintained by the insurance firm.

CA-3.1.9 Where the CBB imposes a financial penalty on an insurance firm or requires an insurance firm to compensate policyholders for any wrongful act of the insurance firm (including any wrongful act committed by an appointed representative of the insurance firm) it must not pay that compensation or financial penalty from any long-term insurance fund. Such penalties can only be paid out of the shareholder (or company) fund.

CA-4.1 General Requirements

CA-4.1.1 **The Asset Valuation Rules, being the Linked Asset Valuation Rules and/or General Asset Valuation Rules, as appropriate, relate to the determination of the value of all the assets of an insurance firm subject to this Chapter.**

CA-4.1.2 **Assets not covered in this Chapter are deemed to be inadmissible assets for purposes of calculating the capital available required under Paragraph CA-1.2.21 and their admissible value is deemed to be nil.**

CA-4.1.3 **Where an insurance firm has entered into any insurance contracts that are classified as a linked long-term insurance business the value of the linked assets to the extent that they are held to match liabilities in respect of such business must be determined in accordance with the Linked Asset Valuation Rules (Paragraphs CA-4.3.1 to CA-4.3.4).**

CA-4.1.4 **All other assets of an insurer subject to this Chapter must be valued in accordance with the General Asset Valuation Rules (Paragraphs CA-4.2.1 to CA-4.2.36).**

CA-4.1.5 **Where in all the circumstances of the case, any asset is actually of a lesser value than the amount calculated in accordance with prescribed Rules (that is either assets subject to the General Asset Valuation Rules or the Linked Asset Valuation Rules) such lesser value must be taken to be the value of the asset.**

CA-4.1.6 The admissibility of assets for purposes of the General Asset Valuation Rules is determined based on the category of asset held and the counterparty.

CA-4.1.7 **An insurance firm must ensure that its liabilities under a contract of insurance, other than linked long-term business, are covered by assets of appropriate safety, yield and marketability having regard to the classes of business carried on by the insurance firm.**

CA-4.1.8 **Without prejudice to Paragraph CA-4.1.7, an insurance firm must ensure that:**

(a) Excessive reliance is not placed on reinsurance or any particular reinsurer; and

(b) That its investments are appropriately diversified, adequately spread and that excessive reliance is not placed on investments of any particular category, description, type or counterparty.

CA-4.2 General Asset Valuation Rules

Asset Limits per Category of Assets

Investments in Non-Insurance Subsidiaries and Associates

CA-4.2.1

Investments in subsidiaries and associates that are not carrying out regulated insurance services as defined in Chapter AU-1.4, must be valued at an amount not exceeding the insurance firm's proportionate share of the subsidiary's or associate's net asset value, determined as if that subsidiary or associate applied these Rules in determining its net asset value.

CA-4.2.2

The net asset value determined in Paragraph CA-4.2.1 must be reduced for any amounts that cannot be made available to the insurance firm in the ordinary course of business. This includes but is not limited to:

(a) Required solvency margins, base capital requirements or any other amounts required to be maintained in order to comply with regulatory requirements applicable to the subsidiary or associate in Bahrain or any other jurisdiction. This restriction applies to any subsidiary or associate (including banks and investment firms) subject to regulation in any jurisdiction;
(b) Assets subject to currency control restrictions; and
(c) Surplus assets in long-term insurance funds, as these assets belong to the long-term policyholders.

CA-4.2.3

Where a subsidiary or associate carries on a regulated activity either in Bahrain or any other jurisdiction, an insurance firm may, with the consent of the CBB, determine the net asset value of that subsidiary or associate (as specified in Paragraph CA-4.2.1) in accordance with the Rules applicable in the jurisdiction where that subsidiary or associate has both its head office and principal supervisor.

CA-4.2.4

In determining the net asset value of a subsidiary or associate (as specified in Paragraph CA-4.2.1) where that subsidiary or associate is not carrying out regulated insurance services, if the value of any single asset under Paragraph CA-4.2.1 exceeds 5% of the insurance business amount, the admissible value of the said asset for the purpose of this Paragraph must be restricted to 5% of the insurance business amount.

CA-4.2 General Asset Valuation Rules (continued)

Real Estate Assets

CA-4.2.5 **Real estate assets such as land and buildings must be valued at market value as assessed by an <u>independent qualified valuer</u> at a date no earlier than 3 years from the end of the financial year under consideration. An <u>insurance firm</u> may elect to use <u>book value</u> where that value is less than <u>market value</u> however where no <u>proper valuation</u> exists the value is deemed by this Module to be nil.**

CA-4.2.6 **If the value of any single asset under Paragraph CA-4.2.5 exceeds 10% of the <u>insurance business amount</u>, the <u>admissible value</u> of the said asset for the purpose of this Paragraph must be restricted to 10% of the <u>insurance business amount</u>.**

CA-4.2.7 The 10% admissibility test of Paragraph CA-4.2.6 is to be applied in total to both land and building, in instances where the realisable value of the asset is dependent on both the land and the building.

Debt Securities

CA-4.2.8 **Debt securities (both fixed and variable interest securities) issued by, or guaranteed by, governments rated investment grade, or public authority with <u>investment grade security</u> must be valued at:**

(a) In the case of <u>listed securities</u>, the closing market quotation or the latest available market quotation;

(b) In the case of securities which are not transferable, the amount payable on surrender or redemption of such securities as at the date the security is being valued; and

(c) In any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

CA-4.2.9 **There are no admissibility restrictions for fixed and variable interest securities meeting the requirements of Paragraph CA-4.2.8. However, admissibility restrictions pertaining to <u>counterparties</u> may apply (CA-4.2.33).**

CA-4.2 General Asset Valuation Rules (continued)

CA-4.2.10

Debt securities (both fixed and variable interest securities) not covered by Paragraph CA-4.2.8 must be valued at:
(a) In the case of listed securities, the closing market quotation;
(b) In the case of securities which are not transferable, the amount payable on surrender or redemption of such securities as at the date the security is being valued; and
(c) In any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

CA-4.2.11

If the value of debt securities, other than those to which Paragraph CA-4.2.8 relates, (both fixed and variable interest securities), which are listed securities, in any one company together with its associated companies exceeds 5% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 5% of the insurance business amount.

CA-4.2.12

For debt securities (both fixed and variable interest) which are not listed securities, if the value of those securities in any one company together with its associated companies exceeds 1.0% of the insurance business amount the admissible value of the said assets for the purpose of this Chapter must be restricted to 1.0% of the insurance business amount.

Equity Shares

CA-4.2.13

Equity shares that are listed securities must be valued on the closing market quotation or the latest available market quotation.

CA-4.2.14

If the value of equity shares, that are listed securities, in any one company together with its associated companies exceeds 5% of the insurance business amount the admissible value of the said assets for the purpose of this Chapter must be restricted to 5% of the insurance business amount.

CA-4.2.15

Equity shares that are not listed securities must be valued at the lower of:
(a) The carrying value of these shares on the books of the insurance firm;
(b) 75% of the net asset value for each share owned by the insurance firm (based on the most recently available financial information); and

CA-4.2 General Asset Valuation Rules (continued)

(c) The amount which would reasonably be paid by way of consideration for an immediate transfer or assignment of the investment.

CA-4.2.16

If the value of equity shares, that are not listed securities, in any one company together with its associated companies exceeds 1.0% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 1.0% of the insurance business amount.

Unit Trust or Mutual Funds

CA-4.2.17

Where the issuer can be required to purchase the units or other beneficial interests from the holder upon the holder giving notice of one month or less and the value of the holdings or other beneficial interests in any one unit trust or mutual fund exceeds 5.0% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 5.0% of the insurance business amount.

CA-4.2.18

Where the issuer is not required to purchase the units or other beneficial interests from the holder upon the holder giving notice of one month or less and the value of the holdings or other beneficial interests in any one unit trust or mutual fund exceeds 1.0% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 1.0% of the insurance business amount.

Traded Derivative Contract

CA-4.2.19

A traded derivative contract that is a listed security, for a share or a debenture must be valued at the closing market quotation, and otherwise at the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof. If the value of the contracts in any one company or its connected companies exceeds 0.1% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 0.1% of the insurance business amount.

CA-4.2 General Asset Valuation Rules (continued)

Loan

CA-4.2.20 A loan secured by a policy of insurance issued by the company must be valued as the amount of the loan but not exceeding the amount payable on a surrender of the policy as at the date the policy is being valued.

CA-4.2.21 A loan to an individual or an unincorporated body of persons shall be valued at the lower of the net outstanding amount of the loan and the amount that would reasonably be paid by way of consideration for an immediate assignment of the loan together with the benefit of any security held in respect thereof.

CA-4.2.22 Except for CA-4.2.23A, where Paragraph CA-4.2.21 applies and the loan to any one individual or unincorporated body of persons is fully secured on assets whose value at least equals the amount of the loan and the loan exceeds 5% of the insurance business amount, the admissible value of the secured loan for the purpose of this Chapter must be restricted to 5% of the insurance business amount.

CA-4.2.23 Except for CA-4.2.23A, where Paragraph CA-4.2.21 applies and the loan to any one individual or unincorporated body of persons is not fully secured on assets whose value at least equals the amount of the loan and the loan exceeds 1% of the insurance business amount, the admissible value of the unsecured loan for the purpose of this Chapter must be restricted to 1% of the insurance business amount.

CA-4.2.23A In the case of Takaful firms, Qard Hassan (free shareholder loan to participants' fund(s)) are valued at their full face value (net of provisions). The admissible value of the Qard Hassan is its face value (net of provisions).

Other Assets

CA-4.2.24 Deposits and current account balances with approved financial institutions must be valued at their full face value. The admissible value of these assets is their face value.

CA-4.2.25 Amounts due under contracts of insurance and reinsurance (either ceded or accepted), including salvage and subrogation rights, must be valued at the amounts that can reasonably be expected to be recovered. The exceptions being:

(a) All debts (net of provisions) which have been due for more than 6 months, in which case they must be valued at nil;

(b) Advance commission paid to intermediaries which must be valued at nil; and

(c) Amounts that pertain to a <u>subsidiary</u> or <u>associate</u> of the <u>insurance firm</u> must be valued in accordance with Paragraph CA-4.2.4 above.

CA-4.2 General Asset Valuation Rules (continued)

CA-4.2.25A **The value of unearned reinsurance premiums is the value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to insurance firms.**

CA-4.2.26 **In the case of general insurance business, the value of deferred acquisition costs is the value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to insurance firms.**

CA-4.2.27 **The admissible value of any cash holding is its face value.**

CA-4.2.28 **Office machinery, furniture, motor vehicles, computer and other equipment belonging to the company must be valued at an amount not greater than its book value. If the value of office machinery, furniture, motor vehicles computer and other equipment exceeds 3% of the insurance business amount the admissible value of the said assets for the purpose of this Chapter must be restricted to 3% of the insurance business amount.**

CA-4.2.29 **Life interests, reversionary interests and similar interests in property must be valued as the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.**

CA-4.2.30 **Investments, except investments that are specifically covered above, must be valued in accordance with this Paragraph:**
(a) If the investment is due, or will become due, within twelve months from the date at which the investment is being valued at (or would become so due if the company exercised some right), the amount which can reasonably be expected to be recovered in respect of the investment, taking due account of any security held in respect thereof;
(b) Otherwise, the amount that would reasonably be paid by way of consideration for an immediate assignment of the debt together with the benefit of any security held in respect thereof.

CA-4.2.31 **Where Paragraph CA-4.2.30 applies to an investment in any one individual or unincorporated body of persons and the aggregate value of those investments (for that individual or unincorporated body of persons valued in accordance with Paragraph CA-4.2.30) exceeds 1% of the insurance business amount, the admissible value of those investments for the purpose of this Chapter must be restricted to 1% of the insurance business amount.**

CA-4.2 General Asset Valuation Rules (continued)

CA-4.2.32

Where Paragraph CA-4.2.30 applies to an investment in any one company and the aggregate value of those investments (for that company valued in accordance with Paragraph CA-4.2.30) exceeds 2.5% of the insurance business amount the admissible value of those investments for the purpose of this Chapter must be restricted to 2.5% of the insurance business amount.

Counterparty Exposure Limits

CA-4.2.33

The admissible value for counterparty exposure limit is:

(a) Where the counterparty is an individual or an unincorporated body of persons, 5% of the insurance business amount;

(b) Where the counterparty is a government of a jurisdiction, other than a Zone A Country, GCC country, the Kingdom of Bahrain and any other jurisdiction approved by the CBB, the jurisdiction together with all the public bodies, local authorities or nationalised industries of that jurisdiction, 10% of the insurance business amount;

(c) Where the counterparty is a body corporate or group, and :

  (i) The counterparty is an approved financial institution, 25% of the insurance business amount or BD 1.5 million, whichever is the larger for all exposures including short term (3 months or less) deposits;

  (ii) The counterparty is an approved financial institution, 10% of the insurance business amount or such lower amount as the insurance firm may decide for all exposures other than short term deposits; and

  (iii) The counterparty is not an approved financial institution, 10% of the insurance business amount for all exposures to that counterparty.

CA-4.2 General Asset Valuation Rules (continued)

CA-4.2.34 **For the purposes of Section CA-4.2, '<u>insurance business amount</u>' means '<u>general insurance business amount</u>' or 'long-term insurance business amount' as follows:**

(a) In terms of <u>general insurance business</u>, the <u>general insurance business amount</u> is the value of the insurance firm's assets (other than <u>long-term insurance business</u> assets) and excluding reinsurance recoveries as determined in accordance with Chapter CA-4; and

(b) In terms of <u>long-term insurance business</u>, the long-term insurance business amount is the value of the <u>insurance firm's</u> assets (other than those relating to <u>general insurance business</u>) and excluding reinsurance recoveries and assets required to match linked liabilities in accordance with Chapter CA-4.

CA-4.2.35 For purposes of Paragraph CA-4.2.34, the value of an <u>insurance firm's</u> assets refers to the valuation assigned in this Section, but does not refer to the <u>admissible value</u> of these assets, i.e. after adjusting for category limits and counterparty limits.

CA-4.3 Linked Asset Valuation Rules

CA-4.3.1

Assets to the extent that they are held to match liabilities in respect of linked long-term insurance must comprise of no other types of property of any description other than property meeting the descriptions set out in Paragraph CA-4.3.2 of this Module.

CA-4.3.2

Assets used to match linked long-term insurance liabilities must fall in one of the following categories:

(a) Real estate assets such as land and buildings (including any interest in land and buildings) each piece individually not exceeding 5% of linked long-term assets and 20% in aggregate;

(b) Listed securities which are readily realisable, other than securities which are:
  - (i) Loans or deposits of the kinds mentioned in (c) or (d); and
  - (ii) Derivative contracts;

(c) Loans which are fully secured by mortgage or charge on land (or any interest in land) each loan individually not exceeding 5% of linked long-term assets and 20% in aggregate and in relation to which the rate of interest and the due dates for the payment of interest and the repayment of principal can be fully ascertained from the terms of any agreement relating to the loan;

(d) Loans to or deposits with an approved financial institution;

(e) Holdings or other beneficial interests in unit trusts or mutual/managed funds which satisfies the following conditions:
  - (i) The property of the fund comprises property only consisting of the descriptions in this Section;
  - (ii) The units are readily realisable at a price which represents the net value per unit of the assets and liabilities of the fund; and
  - (iii) The price at which the units may be bought and sold is published regularly;

(f) Cash; and

(g) Income due, or to become due, in respect of property of any of the descriptions in this Section.

CA-4.3.3

All of the property described in Paragraph CA-4.3.2 must either be classified as 'Available for sale investments' and valued in accordance with International Accounting Standards or valued at their fair market value.

CA-4.3 Linked Asset Valuation Rules (continued)

CA-4.3.4 **The fair market value of real estate assets held as linked long-term insurance assets must be the market value as assessed by an independent qualified valuer at a date no earlier than 12 months from the end of the most recent financial year.**

CA-5.1 Valuation of Liabilities

CA-5.1.1 The Valuation of Liabilities Rules apply with respect to the determination of the amount of liabilities of an insurance firm.

CA-5.1.2 Subject to the specific provisions of this Chapter, the amount of liabilities of an insurance firm in respect its long-term insurance business, general insurance business and any other activities directly arising from that business must be determined in accordance with generally accepted accounting and actuarial concepts, using generally accepted methods appropriate for insurance firms.

CA-5.1.2A Where an insurance licensee writes long term insurance with guaranteed level premiums, the reserving and solvency requirements must follow the requirements for long term insurance. However, where a life policy or an extension of a life policy with has a policy term of less than or equal to one year, the valuation of these liabilities should follow the requirements of Paragraph CA-5.1.3 to CA-5.1.10.

General Insurance Business

CA-5.1.3 The amount of insurance liabilities that are general insurance business liabilities must be determined in accordance with International Accounting Standards applicable to insurance business or until such a standard or standards come into effect, with the provisions of Paragraphs CA-5.1.4 to CA-5.1.10.

CA-5.1.4 Unearned premiums and unearned commission income in respect of the general insurance business must be calculated by a method which has due regard to the period of the policy and the incidence of risk throughout that period. Time apportionment of the premium over the period of policy cover is normally appropriate unless there is a marked unevenness in the incidence of risk over that period, in which case a basis which reflects the profile of risk must be used.

CA-5.1.5 Where a time apportionment method is used that method must be at least as accurate as the '24ths basis' of premium income recognition, except for reinsurers for which transactions are only recorded every quarter where the method used must be at least as appropriate as the ⅛th basis. Where a time apportionment method is deemed inappropriate due to uncertainty in the period of insurance, such as for marine cargo, the method used must be disclosed in the actuarial report required as per Chapter AA-4.

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.6 **Unearned reinsurance premiums ceded must be calculated on the basis of the principles specified in Paragraphs CA-5.1.4 and CA-5.1.5.**

CA-5.1.7 **Unexpired risk reserves (URR) should be calculated as the prospective estimate of expected future payments arising from future events insured under policies in force as at the valuation date and also include allowance for insurance firm's expenses including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and must allow for any expected future premium refund. Where the unearned premium less unearned commission calculated in Paragraphs CA-5.1.4 to CA-5.1.6 above is less than the unexpired risk reserves, the company must set up a suitable additional provision for unexpired risks to cover this deficiency (premium deficiency). This premium deficiency provisions must be calculated at a prudent level.**

CA-5.1.7A In calculating the URR as required under Paragraph CA-5.1.7, the actuary report must clearly disclose if the URR has been calculated on and individual class basis or on total company basis and must justify the approach taken in the adopted method.

CA-5.1.8 **Provision must be made for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This provision should be calculated at a prudent level. This should include a provision for claims reported, claims incurred but not reported (IBNR), claims incurred but not enough reserved (IBNER) and direct and indirect claims handling expenses such as investigation fees, loss adjustment fees, legal fees, labour charges and the expected internal costs that the insurer expects to incur when settling these claims. If a liability is known to exist but there is uncertainty as to its eventual amount, a provision should nevertheless be made.**

CA-5.1.8A The IBNR includes the IBNER. The distinction between IBNR and IBNER is made for a consistent approach to matching of income and expenses.

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.9

The level of claims provisions must be set such that:
(a) No adverse run-off deviation is envisaged;
(b) The provision is determined having regard to the range of uncertainty as to the eventual outcome for the category of business in question;
(c) In circumstances where there exists considerable uncertainty concerning future events, a degree of caution is exercised such that liabilities are not understated; and
(d) If it is less than the aggregate case-by-case provision for claims reported set up by the claims manager, the insurance firm must disclose in writing to the CBB the justification for such a release of reserves.

CA-5.1.10

In determining the sufficiency of evidence and the ability to measure claims costs, an insurance firm must take all reasonable steps to ensure that it has appropriate information with regard to its claims exposures.

Long-term Insurance Business

CA-5.1.11

The amount of insurance liabilities which are long-term insurance business liabilities must be determined in accordance with International Accounting Standards applicable to insurance business or until such a standard or standards come into effect, with the provisions of Paragraphs CA-5.1.12 to CA-5.1.33 below.

CA-5.1.12

The determination of the amount of long-term liabilities (other than liabilities which have fallen due for payment before the valuation date) must be made on actuarial principles with due regard to the reasonable expectations of policyholders and must make proper provision for all liabilities on prudent assumptions with appropriate margins for adverse deviation of the relevant factors.

CA-5.1.13

The determination must take account of all prospective liabilities as determined by the policy conditions for each existing contract, taking due credit for premiums payable after the valuation date.

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.14

The determination must take into account all guarantees including but not limited to:

(a) Guaranteed benefits;
(b) Guaranteed surrender values;
(c) Guaranteed annuities or annuity options; and
(d) Any other guarantees, commitments or options however described that the insurance firm has contracted to provide to a policyholder.

CA-5.1.15

The determination must take into account all bonuses contractually added to each policy.

CA-5.1.16

The determination must take into account expenses including commission.

CA-5.1.17

Subject to Paragraphs CA-5.1.18, CA-5.1.19 and CA-5.1.20, the amount of the long-term liabilities must be determined separately for each contract by a prospective calculation.

CA-5.1.18

A retrospective calculation may be applied to determine the liabilities where a prospective method cannot be applied to a particular type of contract or benefit.

CA-5.1.19

Where necessary, additional amounts must be set aside on an aggregated basis for general risks that are not individualised.

CA-5.1.20

The method of calculation of the amount of liabilities and the assumptions used must not be subject to discontinuities from year to year arising from arbitrary changes and must be such as to recognise the distribution of profits in an appropriate way over the duration of each policy.

CA-5.1.21

The distribution of surplus as bonus to participating policies must consider the level of premiums under these contracts, the assets held in respect of these contracts and the custom and practice of the company in the manner and timing of the distribution of profits.

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.22 **The liability under a contract (other than a linked long-term contract) must be calculated using the net premium valuation method using rates of interest and rates of mortality or morbidity considered appropriate by the actuary appointed as per the requirements of Paragraph AA-4.1.1, at a prudent level.**

CA-5.1.22A **The value of unit liabilities and non unit liabilities must be calculated separately for a unit linked policy. The value of unit liabilities is taken as the net asset value of the units at the valuation date. Non-unit liabilities must be valued by projecting future cash flows to ensure that all future outgoes can be met without recourse to additional capital support at any future time during the duration of the unit linked contracts at a prudent level.**

CA-5.1.23 Other suitable alternative methods may be employed where it can be demonstrated that the alternative methods employed result in reserves no less, in aggregate, than would result from the net premium valuation method.

CA-5.1.24 In order to take account of the acquisition expenses, the net premium to be valued for the purpose of Paragraph CA-5.1.22 above may be increased by an amount not greater than the equivalent, taken over the whole period of premium payments and calculated according to the rates of interest and rate of mortality and morbidity employed in valuing the contract, of 3.5 percent of the relevant capital sum under the contract.

CA-5.1.25 **The increased net premium as computed in Paragraph CA-5.1.24 must not exceed the premium actually payable by the policyholder under the contract.**

CA-5.1.26 **For the purposes of Paragraph CA-5.1.24 'relevant capital sum' means:**

(a) The sum assured at the date of valuation for whole life assurances;
(b) The sum payable at the end of the contract term for endowment assurance contracts;
(c) The capitalised value of the annuity at the vesting date (or cash option if greater) for deferred annuities;
(d) The sum assured or the value of the fund for linked long-term contracts whichever is less notwithstanding (a) to (c) above, where the value of the fund means the aggregate of the value allocated to the contract in the form of units or any other measure and the total amount of premiums remaining to be paid over the term of the contract.

excluding in all cases any vested reversionary bonus and any capital sums for temporary assurances.

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.27

The rate of interest employed for the valuation must be determined prudently with due regard to the yield on the existing assets attributable to the life business as well as the yields expected to be obtained on sums to be invested in the future.

CA-5.1.28

The amount of the liability in respect of any category of contracts must, where relevant, be determined on the basis of prudent rates of mortality and morbidity which in the opinion of the actuary are appropriate for that category.

CA-5.1.29

Provision of expenses whether implicit or explicit must not be less than the amount required, on prudent assumptions, to meet the total cost that would be incurred in fulfilling the existing contracts if the company were to cease to transact new business twelve months from the valuation date. This provision must consider the company's actual expenses in the last twelve months before the valuation date and the expected level of inflation on future expenses.

CA-5.1.30

Provision must be made on prudent assumptions to cover any increase in liabilities caused by policyholders exercising options under their contracts including options for guaranteed cash payments.

CA-5.1.31

The liability under a contract for life business must not be less than zero.

CA-5.1.32

No allowance must be made in the valuation for the voluntary discontinuance of any contract if the amount of liability so determined is less than the corresponding amount without the allowance for voluntary discontinuance.

CA-5.1.33

The determination of the amount of long-term liabilities must take into account the nature and term of the assets representing those liabilities and the value placed upon them and must include prudent provision against the effects of possible future changes in the value of the assets on:

(a) The ability of the company to meet its obligations arising under contracts for long-term business as they arise, and
(b) The adequacy of the assets to meet the liabilities as determined by this Chapter.

CA-5.1.34

For a life policy or an extension to a life policy with a policy term of less than or equal to one year, the valuation of these liabilities must follow Paragraphs CA-5.1.3 to CA-5.1.10.

CA-6.1 Currency Matching and Localisation Requirements

CA-6.1.1

The provisions of this Chapter do not apply to:
(a) Insurance business carried on by an insurance firm outside Bahrain;
(b) Reinsurance business (unless it is facultative reinsurance written by an insurer who also carries on insurance business that is not reinsurance business); or
(c) To unit-linked business.

CA-6.1.2

Where an insurance firm's 'liabilities' in any particular currency exceed 10% of its total 'liabilities', the insurance firm must hold sufficient 'assets in that currency' to cover at least 80% of its 'liabilities' in that currency.

CA-6.1.3

For the purposes of Paragraph CA-6.1.2 'assets in that currency' is extended to include the currency itself (Currency A) and any other currency (Currency B) where Currency A is officially linked to Currency B.

CA-6.1.4

Where an insurance firm carries on both long-term insurance business and general insurance business, the requirements of Paragraph CA-6.1.1 apply to the 'assets' and ' liabilities' of each kind of business separately.

CA-6.1.5

Where a contract of insurance expresses any 'liability' in terms of a particular currency, that 'liability' must be regarded as a 'liability' in that currency.

CA-6.1.6

For the purposes of the Rules in this Chapter:
(a) Assets means admissible assets valued in accordance with Chapter CA-4 General Assets Valuation Rules;
(b) Liabilities means provisions, net of reinsurance recoveries, made by an insurance firm to cover liabilities arising under (or in connection with) contracts of insurance, excluding those liabilities exempted by Paragraph CA-6.1.1;
(c) References to assets in a currency (or similar expressions) are construed as references to 'assets' expressed in or capable of being realised (without exchange risk) in that currency; and

CA-6.1 Currency Matching and Localisation Requirements (continued)

(d) An 'asset' is capable of being realised (without exchange risk) in a currency if it is reasonably capable of being realised in that currency without risk that changes in exchange rates would reduce the cover of 'liabilities' in that currency.

CA-6.1.7

The currency of an insurance firm's general insurance business liabilities must, for the purposes of Paragraph CA-6.1.2 be determined as follows:

(a) Where the 'liabilities' are not expressed as 'liabilities' in terms of a particular currency, they must be treated as 'liabilities' in the currency of the country in which the risk is situated or, if the insurance firm on reasonable grounds so decides, in the currency in which the premium payable under the contract is expressed;

(b) Where a claim has been notified to an insurance firm and the insurance firm's 'liability' in respect of that claim is payable in a currency other than one which would result from the application of the above provisions, the insurance firm must regard its 'liability' as a 'liability' in the currency in which the insurance firm is actually obliged to pay it;

(c) Where a claim is assessed in a currency that is known to the insurance firm in advance but which is different from a currency that would result from the application of the above provisions, the insurance firm may regard its 'liability' as a 'liability' in that currency.

CA-6.1.8

'Assets' held pursuant to Paragraph CA-6.1.2 above must be held:

(a) If they cover 'liabilities' in Bahrain Dinars, in Bahrain;

(b) If they cover 'liabilities' in any other currency, in Bahrain or in the country of that currency, unless they cover liabilities in Bahrain in which case they must be held in Bahrain.

CA-7.1 Whole Firm and Group Solvency

CA-7.1.1 In addition to the capital adequacy and solvency requirements imposed on Bahraini insurance firms and overseas insurance firms, the CBB may require whole firm and/or group solvency information. The requirement under this Chapter applies to the following categories:

(a) Overseas insurance firms;
(b) Bahraini insurance firms with subsidiaries and branches, operating within Bahrain and/or in other jurisdictions; and
(c) Bahraini insurance firms that are subsidiaries and whose parent companies may or may not be an insurance firm.

CA-7.1.2 **Captive insurers are exempted from the requirements to report on their group solvency position.**

CA-7.1.3 **As part of the requirements of the Group Insurance Firm Return (Form GIFR) referred to in Section BR-1.3, the CBB may require an insurance firm to provide:**

(a) A statement of the consolidated financial position of any group of which the insurance firm is either the holding company, a subsidiary or a branch of that group; and
(b) A statement of the solvency margin that would be determined by this Module if the group identified in part (a) of this Rule were a Bahrain authorised insurance firm.

CA-7.1.4 In considering the application of Paragraph CA-7.1.3, the CBB will take into account where the balance of the insurance business is undertaken. Where a high-level of the business undertaken by the group is done from Bahrain, the requirements of CA-7.1.3 may apply.

CA-7.1.5 **The consolidated financial position referred to in Paragraph CA-7.1.3 must be determined on the basis that the assets and liabilities of that group are valued in accordance with the requirements of this Module.**

CA-7.1.6 **An insurance licensee subject to the requirements of Paragraph CA-7.1.3 may, with the consent of the CBB, provide equivalent or substantially equivalent solvency margin information submitted to a supervisor in another jurisdiction.**

CA-7.1.7 **In addition to consolidated information on the group, for Bahraini insurance firms, aggregate information detailing the solvency requirements of the major insurance subsidiaries in the group must also be submitted to the CBB as part of the Group Insurance Firm Return.**

CA-7.1 Whole Firm and Group Solvency (continued)

CA-7.1.8 **Where the licensee's group or parent reports its own solvency position to its regulatory authority (on a group or 'solo' basis) a copy of this calculation must be provided to the CBB within 30 calendar days from the due date to the other regulatory authority, in accordance with Paragraph RM-8.1.6.**

CA-8.1 General Capital Requirements

CA-8.1.1 **This Chapter of CA applies only to those firms licensed to conduct the regulated activity of Takaful and Retakaful.**

CA-8.1.2 **The specific Rules and Guidance in this Chapter are additional to Chapters CA-B to CA-7. The Rules and Guidance in Chapters CA-B to CA-7 apply to Takaful firms unless those Rules have been specifically modified or waived by this Chapter.**

CA-8.1.3 The CBB acknowledges that Takaful/Retakaful insurance is different in some respects from conventional insurance. The specific Rules and Guidance set out in this Chapter aim to allow Takaful firms to operate in Bahrain within the CBB's insurance regulatory regime on a basis consistent with that imposed on conventional insurers. That is, the CBB's regulatory regime does not favour one form of insurance over another, allowing for both types of structures, Takaful and conventional, to operate in a competitive environment.

CA-8.1.4 **For the purposes of applying the rules in Chapters CA-B to CA-7 to Takaful firms, references to 'long-term insurance business' should be read as 'family Takaful business' and 'general insurance business' should be read as 'general Takaful business'.**

CA-8.2 Basis of Operating a Takaful Business

CA-8.2.1 **All Takaful firms licensed in Bahrain must organise and operate their business according to the al Wakala model. Specifically, in exchange for the provision of management services to participants' fund(s)(s), the shareholders of the Takaful firm must receive a specific consideration (Wakala fee). For the insurance assets invested on behalf of participants' fund(s)s, the Takaful operator must use the al Mudaraba model, and must receive a set percentage of the profits generated from the investment portfolio. No performance fees are allowed to be paid to the shareholders/Takaful operator of the Takaful firm.**

CA-8.2.2 **The Wakala fee charged in respect of a Takaful contract must be directly proportional to the costs associated with establishing and maintaining that contract. Both the Wakala and Mudaraba fees must be clearly disclosed to the policyholders of the participants' fund(s)(s).**

Wakala Fee

CA-8.2.2A **The Wakala fee must be a fixed upfront fee and be expressed as a percentage of contributions. The Wakala fee must be clearly stated in the Takaful contract and agreed to by the participant.**

CA-8.2.2B **The Wakala fee must cover the total sum of the following components:**

(a) The management expenses;

(b) The distribution expenses including intermediaries' remuneration, agents' commission and other expenses involved in making Takaful products available to the public; and

(c) A reasonable and appropriate margin of operational profit.

CA-8.2.2C **The Takaful operator must ensure that the management and distribution expenses referred to under Paragraph CA-8.2.2B are paid from the shareholders' fund and not from the participants' fund(s).**

CA-8.2.2D **The Wakala fee must be certified by the Takaful firm's actuary (see Paragraph AA-4.2A.2) and must be considered and subsequently approved by the Shari'a Supervisory Board.**

CA-8.2.3 **The Takaful operators must establish an equitable basis for determining the consideration charged for managing Takaful business.**

CA-8.2.3A In the case of general Takaful contracts, it would normally be expected that the fee would be the same for all contracts of a particular duration, risk and type. In the case of family Takaful, contracts that may be in force for several years, it would normally be the case that the consideration in the initial years would be relatively high due to the costs of establishing the contract but be substantially lower in later years reflecting only the costs of maintaining the contract.

Mudaraba Fee

CA-8.2.4 **For the insurance assets invested on behalf of the participants' fund(s), the Takaful operator collects a Mudaraba fee based on a fixed percentage of the net investment income from the fund and approved by the Shari'a Supervisory Board.**

CA-8.2.4A Net investment income noted in Paragraph CA-8.2.4 refers to gross investment income less any investment expenses, but excluding any Mudaraba fee paid to the Takaful operator.

Managing Operating Costs

CA-8.2.5 **The Takaful operator must establish effective policies and procedures to manage operating costs. In addition, the board of directors must ensure that effective controls are in place in order that the actual management and distributions expenses are in line with the Wakala fee and do not affect the viability of the Takaful operator.**

CA-8.2.6 **Only direct expenses related to claims or investments can be paid out of participants' fund(s). The direct expenses related to claims and investments, charged to the participants' fund(s) must be approved by the Shari'a Supervisory Board and must be limited to the amount of expenses incurred.**

Participants' fund(s)

CA-8.2 Basis of Operating a Takaful Business (continued)

Participants' fund(s) Participants' fund(s)

CA-8.3 Segregation of Funds

CA-8.3.1

Where an insurer carries out Takaful business:

(a) In the case of family Takaful business, it must comply with Chapter CA-3 of the Capital Adequacy Module;
(b) It must maintain separate books of account in respect of each kind of business;
(c) It must maintain any additional books of account required by this Module for either its general Takaful or family Takaful business; and
(d) The transactions relating to each kind of business must be maintained separately for that business and must be carried to and form a separate fund or funds.

CA-8.3.2

A Takaful firm must maintain such accounting and other records as are necessary for:

(a) Identifying the assets representing the fund or funds maintained by it under Paragraph CA-8.3.1 above for each kind of business that it carries on;
(b) Identifying the liabilities attributable to fund or funds maintained by it under Paragraph CA-8.3.1 above for each kind of business that it carries on; and
(c) Complying with the accounting standards established by the 'Accounting and Auditing Organisation for Islamic Financial Institutions' ('AAOIFI').

CA-8.3.3

Other than the explicit exceptions included in Paragraphs CA-8.3.4 and CA-8.3.5, a Takaful firm's assets allocated to the participants' fund(s) must only be applied for the purposes of the fund to which it is attributed as required by Paragraph CA-8.3.2 and must not be made available for any other purpose of the Takaful firm. This does not however prevent the reimbursement of expenditures borne by the shareholders (in the same or the preceding financial year) in discharging liabilities wholly or partly attributable to a fund or funds.

CA-8.3.4

Paragraph CA-8.3.3 does not apply to the payment of management fees by the fund or funds to the Takaful manager even where the manager is the shareholder provided that the Shari'a Supervisory Board has approved those fees.

CA-8.3 Segregation of Funds (continued)

CA-8.3.5 **Paragraph CA-8.3.3 does not prevent a Takaful firm from exchanging, at fair market value, insurance business assets of any fund for other assets of the insurer including assets held by another fund or the shareholder.**

CA-8.3.6 **A Takaful firm which carries on insurance business in Bahrain must have adequate arrangements for securing that transactions involving assets of the Takaful firm (other than transactions outside its control) do not operate unfairly between any of the participants' fund(s) or funds and the shareholder assets of the Takaful firm or, in a case where the Takaful firm has more than one 'identified fund', between those funds.**

CA-8.3.7 **Where the CBB imposes a financial penalty on a Takaful firm or requires a Takaful firm to compensate participants for any wrongful act of the firm (including any wrongful act committed by an appointed representative of the firm), it must not pay that compensation or financial penalty from any participants' fund(s) and it must not seek to have that compensation or financial penalty reimbursed as part of its management fees.**

CA-8.3.8 The Rules in this Chapter in respect of the segregation of funds by a Takaful firm are similar to the Rules set out in Chapter CA-3 relating to long-term insurance business. In the case of a family participants' fund(s) this similarity is most pronounced. However, the Rules set out in Chapter CA-3 still apply even if the participants' fund(s) is a family participants' fund(s), in particular the requirement to separate linked family Takaful business into a separate fund.

CA-8.4 Capital Adequacy and Solvency

CA-8.4.1 All Takaful firms are subject to capital available and solvency requirements.

Determination of Available Capital

CA-8.4.2 The determination of available capital eligible to meet the solvency requirements is the total of:

(a) The participants' fund(s) net admissible assets as defined under Paragraph CA-8.4.3 in all funds, representing the accumulated surplus of revenues over expenses and calculated in accordance with AAOIFI accounting standards; and

(b) The capital available of the shareholder fund as determined under Section CA-1.2, excluding any assets of the participants' fund(s).

CA-8.4.3 Every participants' fund must ~~maintain and~~ calculate its net admissible assets to meet the solvency requirements of the Takaful firm The admissible assets are calculated in accordance with Chapter CA-4 and are reduced by any of the participants' fund(s) liabilities (including any Qard Hassan payable to the shareholder fund) and reduced by 55% of any unrealised gains to arrive at the net admissible assets.

CA-8.4. For the purpose of calculating the ~~capital available~~ admissible assets of the participants' fund(s) referred to under Paragraph CA-8.4.3, the insurance business amount referred to in Paragraph CA-4.2.34 means:

(a) In the case of general Takaful business, the general Takaful insurance business amount is the value of the general participants' fund(s)'s assets (other than family participants' fund(s) assets) and allocated earmarked assets to the insurance business amount (see Paragraphs AA-4.3A.6 to AA-4.3A.8 for actuarial requirements) from the shareholder fund and excluding any reinsurance/retakaful recoveries as determined in accordance with Chapter CA-4; and

(b) In the case of family Takaful business, the family Takaful insurance business amount is the value of the family participants' fund(s)'s assets (other than general participants' fund(s) assets) and allocated earmarked assets to the insurance business amount from the shareholder fund and excluding reinsurance/retakaful recoveries and assets required to match property-linked liabilities in accordance with Chapter CA-4.

CA-8.4.5 Any earmarked assets used under Paragraph CA-8.4.4 must be adjusted to account for any Qard Hassan that may be granted as outlined under Paragraph CA-8.4A.2

CA-8.4 Capital Adequacy and Solvency (continued)

CA-8.4.6 For purposes of Paragraph 8.4.4, earmarked assets must meet the following criteria:

(a) Availability: the asset is available and can be called on demand to meet any liquidity requirement where a Qard Hassan may be extended (see Section CA-8.4A);
(b) Permanency: the asset is not callable and cannot be withdrawn;
(c) Free of encumbrances: the asset is free of any encumbrances or mandatory payments; and
(d) Highly liquid: the asset must be readily convertible to cash equivalent to a minimum of 90% of its reported value on the shareholder's fund statement of financial condition.

CA-8.4.7 Earmarked assets must comply with the criteria outlined in Paragraph CA-8.4.6 and refer to the following allocated assets from the shareholder fund to the each of the participants' fund:

(a) Cash and unencumbered current accounts with financial institutions;
(b) Placements with financial institutions maturing within one month;
(c) Readily marketable securities;
(d) GCC government securities;
(e) Other sovereign bonds and bills up to one year maturity, carrying an S&P minimum rating of AA- (or equivalent); and
(f) Accounts receivable due within one month.

CA-8.4.8 Earmarked assets from the shareholder fund must be allocated for each participants' fund in the calculation of the insurance business amount of each participants fund and as determined by the actuary under Paragraph AA-4.3A.7.

Solvency Requirements

CA-8.4.9 The solvency requirements only apply to the insurance activities of the participants' fund(s) and are calculated in accordance with Chapter CA-2 for each of the participants' fund(s). The solvency required is the total of the solvency requirements for all participants' funds.

CA-8.4.10 Where the capital available as defined under Paragraph CA-8.4.2 does not meet the solvency requirements of Paragraph CA-8.4.9, a capital injection must be made by the shareholders to meet the solvency required.

CA-8.4.11 Should the Takaful firm fail to meet its required solvency margin, it will be restricted from writing any new Takaful business until such time as the Takaful firm is in compliance with the solvency margin requirements.

CA-8.4 Capital Adequacy and Solvency (continued)

Other Requirements

CA-8.4.12 **In cases where a Qard Hassan has been granted to the participants' fund(s), any income generated from the assets forming part of the Qard Hassan (free loan), will be solely for the benefit of the participants' fund, and should be recorded as investment income of the participants' fund. The total investment income being generated by the participants' fund will however be subject to a Mudaraba fee as approved by the Shari'a Board (see Paragraph CA-8.2.4).**

CA-8.4 Capital Adequacy and Solvency (continued)

CA-8.4.13 A participants' fund is prohibited from providing any form of credit by way of loan, guarantee or other instrument to another participants' fund or to any other party, including but not limited to:

(a) The Takaful operator (i.e. the shareholder fund);
(b) A person in a controlled function;
(c) A participant (policyholder) except as provided under Paragraph CA-8.4.14; and
(d) A controller or close link of the Takaful firm.

CA-8.4.14 In the case of Family Takaful, a participant credit facility (policyholder loan) may be granted should the contact of insurance allow for such event to take place and the contract outlines the various conditions attached to such credit.

Qard Hassan Transition Rules

CA-8.4.15 Where a Qard Hassan has been granted for solvency purposes under the Rules in place at that time, the amount of Qard Hassan:

(a) Will be written off by 31st December 2013; or
(b) Will be written off over a period not exceeding 5 years and disclosed as an off-balance sheet item (see PD-1.1.13A) and not included as part of available capital for solvency purposes.

CA-8.4.16 Where Subparagraph CA-8.4.15(b) applies, should the participants' fund for which the Qard Hassan was originally granted generate a surplus during the course of the write-off period, such surplus may be used to repay any part of the portion of the Qard Hassan that has not been written off, subject to the CBB's prior written approval.

CA-8.4 Capital Adequacy and Solvency (continued)

CA-8.4A Liquidity of Participants' Funds

CA-8.4A.1 **Where a participants' fund(s) has a cash deficit which results in its inability to meet its day to day expenses and obligations, a Qard Hassan must be extended immediately by the shareholder fund. The cash being sought by the participants' fund must be physically transferred from the shareholder fund to cover the cash deficit of the participants' fund.**

CA-8.4A.2 **Where a Qard Hassan has been extended for liquidity purposes, the calculation of the earmarked assets allocated to the insurance business amount for the participants' fund(s) as outlined under Paragraph CA-8.4.4, must consider the impact of the reduction in earmarked assets.**

CA-8.4A.3 **Where the shareholder fund of Takaful firms provide Qard Hassan (free loan) to the participants' fund as available for the purposes of meeting a participants' fund(s)'s liquidity needs, the Takaful firm must notify the CBB immediately.**

CA-8.4A.4 **Where a Qard Hassan has been granted, the statement of financial condition of the shareholder fund must reflect the reduction in earmarked assets to fund the Qard Hassan as an asset and for the participants' fund(s), the amount of Qard Hassan must be shown as a liability. In addition, the CBB requires, as a minimum, that the Takaful firm include a specific note in the financial statements of the Takaful firm explaining the circumstances of the arrangement (Qard Hassan) and the implications for shareholders and participants.**

CA-8.4A.5 **Where a Qard Hassan has been extended, it must be repaid from future surpluses from the participants' fund(s).**

CA-8.4A.6 **The Takaful operator must have a clear written policy on the mechanism to rectify the cash deficit of the participants' fund(s), duly approved by the Board. The policy must address the manner in which Qard Hassan will be repaid and specify Qard impairment testing mechanism. The Qard Hassan must be tested for impairment at least annually. Whenever there is a need for Qard Hassan, the Takaful operator must determine the time period for the repayment of Qard Hassan.**

CA-8.5 Distribution of Surplus

CA-8.5.1 Every Takaful firm must develop a policy for determining the surplus or deficit arising from Takaful operations, the basis of distributing that surplus or deficit to the participants, and the method of transferring any surplus or deficit to the participants. The policy developed must consider all relevant AAOIFI standards including Financial Accounting Standard No. 13 'Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies'. The policy must be approved by the Shari'a Supervisory Board as well as the board of directors of the Takaful firm.

CA-8.5.2 More than one policy may be developed where the Takaful firm offers different types of insurance products. In any event, the company must have separate policies in respect of its general business and its long-term business and any surplus or deficit distribution must be in line with the policy developed under Paragraph CA-8.5.1.

CA-8.5.3 On an annual basis, every Takaful firm must determine any surplus or deficit arising on each separate participants' fund. The surplus or deficit must be recommended by the actuary (see Paragraph AA-4.2A.5) and endorsed by the Shari'a Supervisory Board and the board of directors of the Takaful firm.

CA-8.5.4 The policy developed in accordance with Paragraph CA-8.5.1 must form part of each and every policy sold by a Takaful firm. This policy may not be amended or changed without the approval of the Shari'a Supervisory Board.

CA-8.5.4A Distribution of surpluses from the Participants' fund(s) is subject to the CBB's prior written approval.

CA-8.5.5 No Takaful firm is permitted to make any distributions to participants if either the participants' fund(s)(s) does not, or through the payment of the distribution, would not meet all the capital available and solvency requirements set out in Chapters 1 and 2 of the Capital Adequacy Module. In addition the surplus distribution must not cause adverse financial implications or a deficit in the participants' fund(s) and the Takaful operator must ensure that the participants' fund(s) is sufficiently liquid to cover any proposed surplus distribution.