

**Industry Comments –Proposed Module on Client Money for CBB Rulebook Volume 3 (Insurance)  
August 2011**

Industry Comments	Ref	CBB’s response
<b>General Comments:</b>		
<p><b>A Bank</b> highlighted that a bank would not know if an account is a ‘client money’ account, unless advised by the customer. Therefore CBB should clearly state in the proposed regulations, that it is the responsibility of the insurance broker/ representative to advise the Bank, and then only the bank can provide a confirmation that is holding ‘client money’ in the account of the customer.</p> <p><b>The Bank</b> also noted that if a retail bank is merely holding account of its customer who happens to be an insurance broker/ representative, then the Bank would not know the nature of deposits to, or withdrawals, from the account. Therefore the responsibility of complying with the related regulations should be with the insurance broker/ representative (unless the bank itself is such broker/ representative), and not the bank (which is merely holding the account), and we suggest that this should be clarified by CBB in the CL Module.</p>		<p>Paragraph CL-1.1.5 clearly notes that the insurance brokers and appointed representatives must instruct the bank on how the client money account must be dealt with and in what capacity it expects the bank to hold such client money. The obligation is therefore on the broker or appointed representative to keep the bank informed and the bank may therefore wish to document this arrangement to ensure a clear understanding of its obligations as requested by the broker or appointed representative.</p>
<p><b>An Insurance Broker</b> noted that after confirming cover is in place, the insurance firm issues the policy documents and invoices the insurance broker. In turn, the broker delivers the policy and invoices the client. The client pays the premium to the broker as agreed (which may be in advance, on receipt of the invoice/policy or on completion of the credit period of 30 or 60 days). The broker pays the firm the premium net of commission as per the credit agreement between them. Usually, the payments are made once a month for all invoices becoming due at that time.</p> <p>It is possible to maintain a separate bank account into which premium received from clients or premium refunds received from firms are deposited. When payment is made by the broker to the firm, the commission element will be transferred to the broker’s income and expense bank account.</p>		<p>Such practice will no longer be allowed and Paragraph CL-2.3.3 states that insurance brokers must pay to insurance firms premiums/contributions received no later than 15 calendar days from the date of receipt of such amounts.</p> <p>Such practice will no longer be allowed and Paragraph CL-2.3.4 clearly states that brokers are prohibited from deducting their commission from the premiums/contributions account(s).</p>
<p><b>An Insurance Broker</b> is in agreement to the fact that the client money should be protected in accordance with CBB requirements. They are in full compliance with existing CBB regulation on this matter, by maintaining separate client and operating accounts and paying collected premiums to insurance companies in timely manner. At</p>		<p>Noted. No comment or amendment required.</p>

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<p>the same time <b>the Insurance Broker</b> would like to address some practical issues in handling the client money, as such based on few of the items proposed within the Proposed Module on Client Money for the CBB Rulebook Volume 3 (Insurance) which are considered to be impractical and unworkable.</p> <p><b>The Insurance Broker</b> believes and agrees that protection of client funds is a must and <b>it</b> will comply with the existing regulation of CBB.</p>		
<p><b>An Insurance Broker</b> noted that they fully support the CBB’s intention to protect client money.</p> <p>They have requested their retail bank to review the covering letter and CBB Client Money Module and to confirm whether they have the resources in place to comply with the proposed legislation.</p> <p><b>The Insurance Broker</b> is awaiting the retail bank’s feedback and will communicate this to the CBB on receipt.</p>		<p>Have not received any further feedback from Willis.</p> <p>No further comment or amendment required.</p>
<p><b>An Insurance Broker</b> noted that thus far, Bahrain’s regulatory environment under the leadership of the Central Bank has been both visionary and working example of ideal regulatory models in the region for the insurance sector.</p> <p>Without a doubt, client’s monies must and will be safeguarded against those who seek to illegitimately damage the stability of the Bahraini insurance market. It is not unreasonable to look to adopt western principles for client monies management such as those of the FSA. It is a must that appropriate client money controls be enforced sooner or later.</p> <p>However, the fear is that certain insurance firms will look to certain aspects of this new regulation to make up for their lack of ability to compete in the current environment. In an overcapitalized insurance market, many of the local insurers have lacked over the pas five years to provide growth and value added to the advancement of insurance products and services in the Kingdom. In fact, a number of insurers continue to lose</p>		<p>Noted.</p>

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<p>market share and see drops in profitability as a sign they need to eliminate the middle man at the expense of the local insurance broking fraternity. Finally, it is no way in Bahrain’s interest for the Bahraini local mainstream insurance broker to disappear as this will result in both less choice for the Bahraini and foreign customer as well semi-monopolize the influence of insurance firms over the direction of rates, claims, and other matters. The very presence of insurance advisors in the local market curtails inevitably insurance firms’ abilities to create market understandings, restrict benefits, or introduce tariffication. The last recommendation is that a certain time frame be permitted to allow insurance brokers to prepare and transition accordingly to the new regulations to avoid a knee jerk reaction by insurance firms and the market looking to take short term advantage of these new regulations to hurt insurance brokers’ relationships with their clients. Otherwise, the market will descend into a state of chaos. A period of 180 days would be the most ideal is at all possible.</p>		<p>A transition period of maximum 3 months will be added to the final Module once issued.</p>
<p><b>An Insurance Licensee</b> noted the following:</p> <ul style="list-style-type: none"> <li>- Remedies for insurance firms in case of brokers failing to pay the contribution are not discussed in the proposed regulations.</li> <li>- What would be the enforcement mechanism of this module?</li> </ul>		<p>As for all Modules of Volume 3 (Insurance) where non-compliance takes place, licensees are subject to the provisions of Module En (Enforcement).</p>

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<p><b>An Insurance Broker</b> noted that they are in agreement to the fact that there should be protection of client money and, as such, and in keeping with CBB requirements, it is possible to confirm that they are in full compliance with existing CBB regulation on this matter, that separate client and operating accounts are maintained and that premiums are paid to the insurance market as swiftly as possible.</p> <p>However, the operation/ handling of client money also needs to be a practical issue and, as such, some of the items proposed within the Proposed Module on Client Money for the CBB Rulebook Volume 3 (Insurance) are considered to be impractical and, for certain items, unworkable.</p> <p>The specific comments contains explanation of why the proposed changes are impractical and non workable and why they will act to the detriment of clients, insurers and brokers alike. However, it is believed that protection of client funds is a must and, as such, maintenance must be seen on the existing CBB Regulation.</p> <p>Please note, the proposed changes made by CBB under this module are far more severe and restrictive than, for example, those imposed by the UK FSA, which are already some of the most restrictive in operation.</p> <p>Finally and in addition, CBB should be enforcing the regulation that is currently in place for the protection of client money before any further amendment to the regulation is considered or enforced.</p>	<p>Noted. No amendment required.</p>
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<b>Proposed Rule</b>	<b>Comments</b>		<b>CBB’s Response</b>
<p><b>CL-B.1.2</b>  <u>Client money</u> is money of any currency that an <u>insurance broker</u> or <u>appointed representative</u> receives and holds for its client (or clients of <u>appointed representatives</u>) when carrying on insurance mediation. It can include premiums/contributions and premium/ contribution refunds.</p>	<p><b>An Insurance Broker</b> noted that once the client agrees to take an insurance policy, through a broker and the money is paid by him to the broker, then the money actually belongs partly to the insurance company and partly to the broker i.e. pure premium + brokerage. This is because as regards the client, he has transferred his risk to the insurer and he pays the money (premium) as consideration. The broker is the intermediary who facilitates the collection of premium and payment to the insurer. Such money belongs to the insurer + broker. Such money can be designated and kept in separate account called “Premium account” in the Bank. The other account of the broker can be called “Expense account”. The “Premium account” will have deposits from various clients and payments will be only to insurance companies except instances as mentioned in CL 1.1.9.</p>		<p>Noted.            No amendment required.</p>
<p><b>CL-1.1.1</b>  <b>Where an <u>insurance broker</u> or <u>appointed representative</u> receives payment from a client, it must maintain one or more premiums/ contributions account that holds <u>client money</u> separate from its own.</b></p>	<p><b>An Insurance Broker</b> is in agreement to the items CL-1.1.1 to CL-1.1.4 and are currently practicing the same.</p> <p><b>An Insurance Licensee</b> noted that it is not clear whether one account for all client money is required or whether a separate account for each client.</p> <ul style="list-style-type: none"> <li>▪ If one account only then CL-1.1.2 is at risk because one transaction’s money can be used to settle dues for another transaction. How can</li> </ul>		<p>Noted.</p> <p>There is no need to have multiple client money accounts. Paragraph CL-1.2.3 clearly indicates that the records of the insurance broker and appointed representative must clearly show funds received and paid out allocated per client.</p>

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	<p>this be monitored?</p> <ul style="list-style-type: none"><li>▪ Multiple accounts will create a logistical nightmare especially for any broker. CL-1.1.5 (b) seems to imply multiple accounts.</li></ul>		
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<p><b>CL-1.1.2</b>  <b>Premiums/contributions collected in relation of a specific transaction or party must not be used to settle amounts due under another transaction or party.</b></p>	<p><b>An Insurance Broker</b> noted that the clause requires us to identify specific transactions and keep track of these transactions for receipt and payment. This may be generally true however in reality this is very cumbersome and impractical. Reason being that the client may make ad hoc payments and we also make ad hoc payments to insurance companies. This will not be identified to any particular transaction and reconciliation would be done at a later date. There will also be claims credits to the client’s accounts where it cannot be identified to any specific transactions. Such payments are typically done on first in first out basis or based on transactional urgencies.</p>	<p align="center">A</p>	<p>Section CL-1.2 deals with proper record keeping.          Paragraph CL-1.2.3 states that records of insurance broker and appointed representative must clearly show funds received and paid out allocated per client.</p> <p>Furthermore, Paragraph CL-2.1.2 notes that insurance brokers and appointed representatives must establish effective systems and controls to ensure the fulfillment of their fiduciary responsibilities towards their clients particularly protecting client money.</p> <p>Brokers are not permitted to handle claims payments. While they can assist the policyholder in the claims settlement process, the actual claim payments are to be handled directly by the insurance firm to the policyholder. This is in line with amounts that may be deposited and withdrawn from the client account CL-1.1.9. Rule added to clarify.</p>
<p><b>CL-1.1.3</b>  <b>Payment of premiums/contributions to <u>insurance firms</u>, or commissions (brokerage) to the <u>insurance broker’s</u> and <u>appointed representative’s</u> own accounts must not be effected until the</b></p>	<p><b>An Insurance Licensee</b> noted that consideration needs to be given for insurance firms which pay commission on indemnity terms (up-front).</p> <p><b>An Insurance Licensee</b> noted that payment of brokerage should happen only upon payment to the</p>		<p>No commissions are allowed to be paid up front.</p> <p>Noted.          No amendment required.</p>

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<p>premiums to which these payments relate have been duly received from that client and credited to the client account.</p>	<p>insurance company and not to the client account with the broker. This clause should refer C.L. 2.3.4</p>		
<p><b>CL-1.1.5</b> <b><u>Insurance brokers and appointed representatives must:</u></b> <b>(a) Provide the CBB with a written confirmation from a retail bank(s) licensed to do business in Bahrain, as in what capacity they are holding such <u>client money</u>. This confirmation must be provided to the CBB at the time of opening the client money account and when there is a material change in the nature of the account; and</b> <b>(b) Instruct the bank(s) not to combine the client money account(s) with any other account or to exercise any right or set-off or counterclaim against money in that account in respect of any sum owed to it on any other account of the firm.</b></p>	<p><b>An Insurance Broker</b> noted that point (a) has already been done and point (b) can be addressed.</p> <p><b>An Insurance Broker</b> noted that for clause (a) the separate account has already been opened by them, designated as “PREMIUM ACCOUNT”. For clause (b) the other account with the bank is to receive the commissions and other receipts other than client’s premium. It is believed that the banks involvement is not warranted here since the responsibility of maintaining the account and ensuring compliance is that of the broker, there is no involvement of the bank per se in the operation of the account other than commercial bank dealings. It may also be noted that the commission due to them has to be transferred from the “PREMIUM ACCOUNT” (account A) to our “EXPENSE ACCOUNT” (account B) on monthly basis on actual collections made into the premium account. This could be duly certified by the external auditors as monthly transfers of commission from account A to account B. The auditor can also certify that all payments from account A have been done as per the guideline of CL1.1.9. This certification of the auditor can be made mandatory along with the IMR returns every six months so</p>		<p>Noted. No amendment required</p> <p>Noted. No amendment required.</p> <p>The bank needs to be informed by the broker in what capacity it is holding the funds in the client money account to ensure proper segregation of funds and that funds from the client money account are only withdrawn in line with the definition of the client money account.</p> <p>No netting will be allowed under Module CL. The full amount of the premium must be remitted to the insurance firm who in turn will have an obligation to pay the brokerage commission within a set deadline (see Paragraphs CL-2.3.3 and CL-2.3.4).</p>

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	that the bank account operation is monitored by the company's external auditor rather than the bank. This will be more effective and practical.		
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<p><b>CL-1.1.6</b> Paragraph CL-1.1.5 does not apply where the <u>appointed representative</u> is a bank. In this instance, premiums/contributions received by the <u>appointed representative</u> must be deposited directly into the <u>insurance firm’s</u> account with the bank.</p>	<p><b>An Insurance Licensee</b> suggested that this paragraph be changed to: <i>“Paragraph CL-1.1.5 does not apply where the appointed representative is a bank. In this instance, premiums/contributions received by the appointed representative must be deposited directly into the insurance firm’s account with <b>a retail bank in Bahrain.</b>”</i></p> <p><b>An Insurance Broker</b> noted that this rule does not apply to them.</p>		<p>Will amend accordingly.</p>
<p><b>CL-1.1.7</b> <u>Client money</u> must, upon receipt, be paid into a specifically designated client bank account no later than the immediate business day after receipt. The monies in this account must not form part of the assets of the <u>insurance broker</u> or <u>appointed representative</u> and hence must be held in custody for the client, where the <u>insurance broker</u> or <u>appointed representative</u> acts as an agent with the client retaining full legal ownership of the funds.</p>	<p><b>An Insurance Broker</b> noted that the broker has the responsibility of collecting the premium from the client and the obligation to pay the firm. Is it possible that the client, after inception of insurance cover, decides to delay or stop the payment to the firm, and if this happens, how does the broker discharge his obligation?</p> <p><b>An Insurance Broker</b> confirms that the client money is paid into specifically designated client bank accounts. Since they close by 4:30pm, there will be transaction till that time, hence the payment to bank is done on the next working day (morning). <b>The Insurance Broker</b> will comply with the requirement and will pay the client money on daily basis.</p> <p><b>An Insurance Broker</b> noted that the receipts from the clients will be deposited into the “PREMIUM</p>	<p align="center">B</p>	<p>The terms surrounded the non-payment of premiums are covered in the insurance policy provided by the insurance firm. The insurance firm is liable to provide the insurance coverage as per the policy and cannot hold the broker liable for non payment of premiums.</p> <p>Noted. No amendment required.</p> <p>Agreed. The premiums received are to be deposited in the client money account as outlined in Paragraph CL-2.2.4. The</p>

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	<p>ACCOUNT” maintained by the broker. This will necessarily be in the bank account which belongs to the broker. The broker is carrying the receivable account of the client in his books. Therefore when money is received in settlement of such premiums it has to be accounted in the broker’s bank account only. The payments out of this account has to be only as per the guidelines of the CL 1.1.9 and which will be verified by the external auditor. Of course in this case the broker is indeed acting as the custodian of the money as he will only make payments to the insurance companies, except for his commissions and refunds to the clients etc.,</p> <p><b>An Insurance Broker</b> noted that clients are requested to pay premiums/contributions directly into their client money account. Additional clarification is required on full legal ownership of these funds as the funds are received with the intention to pay the insurer and are therefore no longer in custody of the client.</p>	<p>C</p>	<p>Module will be amended to note that the client money account must be recorded as a fiduciary asset as well as any receivables from policyholders (or insurance firms for reinsurance brokers).</p> <p>Commissions cannot be paid out of the client money account. Commission payments are be made directly from the insurance firm in line with Paragraph CL-2.3.4.</p> <p>The definition of client money account clearly states that “The terms of the agreement between the insurance broker or appointed representative and the retail bank should clearly state that the client of the insurance broker or appointed representative retains full legal ownership of the funds.”</p>
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<p><b>CL-1.1.9</b> Amounts that may be deposited into a client account:</p> <p>(a) Monies received from the client for the purpose of purchasing contracts of insurance; and</p> <p>(b) Monies received on behalf of the client from (re)insurance firms, <u>insurance intermediaries</u> and any other third parties relating to the refund of premiums to clients.</p>	<p><b>An Insurance Broker</b> noted that as this is from a bank account for which the bank has issued a written confirmation to the CBB {CL-1.1.5(a)}, will the client have to give a written authority for each withdrawal? Will the bank perform its own KYC procedures for the broker’s clients? Will they charge fees for these services? They do charge fees for issuing various certificates.</p> <p><b>An Insurance Broker</b> noted that the Client Money deposit is noted and agreed. The Client Money withdrawal has some constrains: Since the negotiation carries an implicit agreement/ instruction on behalf of the client that all payments received in respect of insurance premiums will be paid to insurers by <b>the Insurance Broker</b>. As such there should be no additional requirement/authorization required from the client to draw the money from <b>the Insurance Broker</b> client account to pay to insurers.</p> <p><b>An Insurance Broker</b> noted that for clause (b) when the client pays the money for purchase of insurance, then it becomes the ownership of the</p>	<p>D</p>	<p>Paragraph CL-1.1.9 dealing with withdrawals is being amended to clarify that premium moneys can be withdrawn from a client account where required to pay on behalf of the client to (re)insurance firms OR when drawn on a client’s written authority.</p> <p>Insurance brokers must follow Module FC and carry out their own KYC procedures.</p> <p>See item D reply.</p> <p>See item D reply.</p>
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	<p>insurance company + the broker. Therefore any money which is paid out of the PREMIUM ACCOUNT maintained by the broker will essentially not have any involvement of the client. Amount that may be withdrawn from a client account (Premium account) should also include transfer of commission to expenses account.</p> <p><b>An Insurance Broker</b> noted that this is in accordance with their current practice; however, they have noted that there is no mention in the draft client money module relating to claims monies.</p> <p><b>An Insurance Licensee</b> suggested extending subsection (b) to include monies received on behalf of clients in settlement of a particular claim.</p> <p><b>An Insurance Broker</b> noted that regarding money which can be deposited into client account, this will potentially cause the following problems;</p> <p>a) It will mean that money cannot be deposited into client accounts for the payment of claims as happens currently and is allowed under GR-1.2.14 (b). This is particularly important in the case of reinsurance contracts.</p> <p>b) It will also prevent depositing money into the client account for the payment of incidentals, such as fees for services provided by other professional bodies required to support the servicing of the client’s insurance requirements.</p>	<p>E</p>	<p>See item C reply.</p> <p>See item A reply.</p> <p>See item A reply.</p> <p>See item A reply.</p> <p>The wording in Paragraph CL-1.1.9 (a) does not prevent depositing money related to the payment of incidentals as it refers to any money received from the client <b>for the purpose of purchasing contracts of insurance.</b></p>
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	<p>c) In addition it would prevent them from depositing money into the client account to cover bank charges incurred.</p> <p>Concerning withdrawal from a client account contains two specific items, and these two items need to be addressed:</p> <p>a) The negotiation of insurance contracts with clients and the subsequent purchase of these contracts require collection of premiums and settlement to insurance companies.</p> <p>The negotiation carries an implicit agreement/instruction on behalf of the client that all payments received in respect of insurance premiums will be paid to insure by them. As such, there should be no additional requirement, from the client, to provide a further written authority to draw the money from their client account to pay insurers.</p>		<p>See item E reply.</p> <p>See item D reply</p>
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	<p><b>b)</b> They should be able to draw commissions/ brokerage amounts from the client account but this should not require written authorization.</p>		<p>See item C reply.</p>
<p><b>CL-1.1.10</b> Every <u>insurance broker and appointed representative</u> must maintain at least one income and expenses account with a retail bank licensed to business in Bahrain.</p>	<p><b>An Insurance Licensee</b> noted that the last line “to business” should read “to do business”.</p>		<p>Noted. Amendment made.</p>
<p><b>CL-1.1.11</b> <u>Insurance brokers and appointed representative</u> are prohibited from combining or transferring income and expenses account(s) with premiums/contributions.</p>	<p><b>An Insurance Broker</b> noted that Insurance brokers and appointed representative are prohibited from combining or transferring income and expenses accounts) with premiums/contributions, except transferring of commission from premium account to expenses account.</p> <p><b>An Insurance Licensee</b> noted that “Appointed representative” in first line (underlined) should read “Appointed representatives”.</p>		<p>See item C reply.</p> <p>Noted. Amendment made.</p>

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<p><b>CL-1.2.1</b> In accordance with Section GR-1.2, <u>insurance brokers and appointed representatives</u> must ensure that proper records, sufficient to show and explain <u>insurance brokers’ and appointed representative’s</u> transactions and commitments in respect of its <u>client money</u>, are maintained and demonstrate compliance with the provisions of this Module. These records must be retained for a period of a minimum of ten years after they are made, unless otherwise required by law.</p>	<p><b>An Insurance Licensee</b> noted that “Appointed representative’s” (4<sup>th</sup> line) should read “Appointed representatives” and “its” (5<sup>th</sup> line) should read “their”.</p>		<p>Noted. Amendment made.</p>
<p><b>CL-1.2.2</b> An <u>insurance broker and appointed representative that holds client money</u> must: (a) Check its record-keeping and <u>client money</u> procedures regularly; and (b) Subject its record-keeping and <u>client money</u> procedures to an appropriate independent review (see Rule CL-</p>	<p><b>An Insurance Broker</b> noted that the (Auditors agreed upon procedures relating to client money) will involve a further cost being incurred.</p>		<p>Noted. No change made. This is required by the CBB to ensure that Module CL is complied with.</p>

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<p><b>CL-1.2.3</b> <b>Records of the <u>insurance broker</u> and <u>appointed representative</u> must clearly show funds received and paid out allocated per client. For greater clarity, all <u>client money</u> held must be recorded as off-balance sheet items.</b></p>	<p><b>An Insurance Broker</b> noted that this rule requires client money to be an “off balance sheet” item. Currently this is not the case, since their financials are viewed by all their insurers and reinsurers globally; such a change will weaken their balance sheet and will create a negative image. Would appreciate if they can get a clear idea as to why this course of action is considered necessary.</p> <p><b>An Insurance Broker</b> noted that the “PREMIUM ACCOUNT” maintained by the broker with a bank will have monies collected from clients for purchase of insurance. This money is collected from clients whose receivable account is carried by the broker in his books. Therefore when money is received in settlement of such receivables it has to be accounted in the brokers books only as: Debit : Bank a/c – PREMIUM A/C Credit : Client receivables A/C Bank account (Premium account) is very much part of the brokers’ balance sheet as the premium account receivables and payables are inter related and absence of the bank account (Premium account) will make the balance sheet incomplete. Therefore both the receivable account and the Premium account will be within the broker’s balance sheet.</p> <p><b>An Insurance Broker</b> noted that all their premium and claim transactions clearly show movement of funds on a client transaction basis. According to</p>	<p>See item B reply.</p> <p>See item B reply.</p> <p>See item B reply.</p>
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	<p>their current accounting practices, all client/insurer receivables and payables are recorded on the balance sheet.</p> <p>It is proposed splitting of client/insurer funds, receivables and payables from their own funds, receivables and payables on the balance sheet as fiduciary assets and fiduciary liabilities inline with UK and US generally accepted accounting practices.</p> <p>The separation of fiduciary assets and liabilities from own assets and liabilities on the balance sheet is followed by all international stock exchange listed insurance brokers. For an example of this, please refer to Willis Group Holdings plc 2010 Annual Report page 77. Our international competitors have the same separation. <a href="http://investors.willis.com/phoenix.zhtml?c=129857&amp;p=quarterlyearnings10">http://investors.willis.com/phoenix.zhtml?c=129857&amp;p=quarterlyearnings10</a></p> <p>Additionally, it will be noted that fiduciary assets, consisting of client money and net premium receivable from clients, should always net to zero with the fiduciary liabilities (net premiums payable to insurers). The above separation will also highlight cases in which an insurance broker is “premium funding” or incorrectly using client money to pay income and expenses. At your request, we would welcome the opportunity to explain how the separation highlights “premium funding” and the incorrect use of client money to pay income and expenses.</p>		
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	<p><b>An Insurance Broker</b> inquired why is it considered necessary to require client money to be an “off balance sheet” item.</p>		
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<p><b>CL-1.3.1</b> In accordance with Section BR-1.2, <u>insurance brokers</u> must prepare and submit to the CBB an Insurance Intermediary and Manager Return (IMR) semi-annually. The 31<sup>st</sup> December IMR must be submitted by 28<sup>th</sup> February at the latest. The 30<sup>th</sup> June IMR must be submitted by 31<sup>st</sup> July at the latest.</p>	<p><b>An Insurance Broker</b> noted that the existing time frame of 31st March itself is met with the hardest efforts and submitting IMR before 28th February is practically not possible, even increasing additional manpower cannot solve this, since collecting closing documents from insurance/reinsurance companies abroad will alone take more than 40 days. Submitting IMR twice a year will be an undue additional cost; since regular quarterly updates are being done through IIS returns, hence it is preferred if it was not necessary.</p> <p><b>An Insurance Broker</b> requested that the time lines for submission of IMR forms be kept similar to the financial year end submission which is 31 March for the annual closing. For the half year closing please consider the same timeline i.e. 30 September. For the client money module if necessary this submission can be done even on half yearly basis i.e. the statutory auditors certification of disbursements from PREMIUM ACCOUNT. This certification can be provided say within 30 days of the half yearly closing so that it is more effective for monitoring purposes.</p> <p><b>An Insurance Broker</b> noted that it is advised to continue the present practice of yearly submission of IMR and the last date of submission of IMR and the last date of submission should continue to be</p>	<p>F</p>	<p>For annual submissions, 28<sup>th</sup> February remains. For semi-annual submissions, Rule will be changed to have due date of 31<sup>st</sup> August.</p> <p>Note that IIS has only corporate information – no numerical data.</p> <p>See item F reply.</p> <p>See item F reply.</p>
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	<p>31<sup>st</sup> March because it will be difficult to finish account closing, auditing and holding of board meeting and annual general meeting within the financial year end.</p> <p><b>An Insurance Broker</b> noted that Audited accounts are normally received towards the end of March or early April and, as these are submitted at the same time as the IMR it is requested that these existing time frames are maintained.</p> <p>With regard to completion and submission of a second IMR by the 31<sup>st</sup> July each year, they prefer that this was not necessary. It is also unlikely that this would be possible, especially without incurring undue additional cost. Regular updates of all matters relating to their activity are submitted to CBB, in accordance with regulation and the addition of a second, annual IMR will add an additional work load that will not provide any additional, useful information to CBB.</p>		<p>See item F reply.</p>
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<p><b>CL-1.3.2</b> <u>Insurance brokers</u> must provide the CBB, within 2 months of the financial year end, the audited financial statements and the management letter from the external auditor.</p>	<p><b>An Insurance Broker</b> noted that it is not possible to supply audited financial statement, Management Letter within 2 months of the financial year end from the external auditor.</p>		<p>Agreed to change to 3 months from financial year end.</p>
<p><b>CL-1.3.3</b> <u>Insurance brokers</u> must provide the CBB, within 3 months of the financial year end, the Agreed Upon Procedure produced by the external auditor, certifying that the <u>insurance broker</u> among other things, is complying with the rules of the Module CL (Client Money).</p>	<p><b>An Insurance Broker</b> noted that the Audited Financials will be only received by the end of March/beginning of April; the “Agreed Upon Procedure” can only follow about one month after we the Audited financial statements have been received.</p>		<p>As the agreed upon procedures deal with the filing of the statutory return required under Paragraph CL-1.3.1, which is due 2 months after year end, the deadline for the agreed upon procedures is to be retained to 3 months after year end.</p>
	<p><b>An Insurance Licensee</b> believes this section should also apply to Appointed representatives.</p>		<p>Disagree. Agreed upon procedures deal with the filing of the statutory return under Paragraph CL-1.3.1 and appointed representatives are not subject to this requirement.</p>
<p><b>CL-2.2.1(b)</b> Except as otherwise indicated, in order to ensure adequate protection of <u>client money</u>, <u>insurance brokers</u> and <u>appointed representatives</u> can follow on of two approaches or a mix of both for holding <u>client money</u>:</p>	<p><b>An Insurance Broker</b> inquired that shouldn’t these receivables and payables be reflected in the broker’s balance sheet?</p>		<p>Agreed. See item B reply.</p>
	<p><b>An Insurance Broker</b> noted that the transfer from “PREMIUM ACCOUNT” should also allow for transfer of Commissions to the expense account.</p>	<p>G</p>	<p>Disagree. Commissions are to be paid directly by the insurance firm in accordance with Paragraph CL-2.3.4</p>

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<p>(a) Transfer the risk from the <u>insurance broker</u> to the <u>insurance firm(s)</u>; or</p> <p>(b) Segregate <u>client money</u> into <u>client money accounts</u> that cannot be used to reimburse other creditors if a firm fails.</p>	<p><b>An Insurance Licensee</b> noted that in the 2<sup>nd</sup> line - “on” should read “one”.</p>		<p>Agreed. Correction made.</p>
<p><b>CL-2.2.2</b> <b>Individual appointed representatives and corporate appointed representatives, other than financial institutions are not allowed to hold <u>client money</u> and must transfer the credit risk to the <u>insurance firm</u>.</b></p>	<p><b>An Insurance Licensee</b> noted that in the 2<sup>nd</sup> line – remove comma after representative.</p>		<p>Disagreed. Added 2<sup>nd</sup> comma after financial institutions to make sentence clearer.</p>
<p><b>CL-2.2.3</b> <b>For purposes of Subparagraph CL-2.2.1 (a), a written agreement must be in place between the <u>insurance broker</u> or the <u>appointed representative</u> and the <u>insurance firm</u> stating that premiums/ contributions – and if the <u>insurance firm</u> wishes, premium refunds – are held by</b></p>	<p><b>An Insurance Broker</b> noted that this is not acceptable to PIS since PIS needs to be able to collect client money (kept in accordance with current regulation) and then to be able to draw from the accounts the brokerage due to PIS and settle appropriate funds to insurers. It will not be possible or practical to allow Insurers to hold all funds.</p>	<p>H</p>	<p>Disagree. PIS operates in accordance with CL-2.2.1 (b) and therefore this Paragraph is not applicable to them.</p>

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<p><b>the <u>insurance firm</u>.</b></p>	<p><b>An Insurance Broker</b> noted that this will need to be kept in the “PREMIUM ACCOUNT” similar to when the broker receives the client money. Of course the disbursements from this account should also allow for the broker to pay it back to the client. The strong reason for this is because the client relationship is maintained by the broker and not by the Insurance Company. Hence it is the responsibility of the broker to ensure that he gets the refunds from the insurance company and pays it to the client. Such refund amounts may also be allocated to settle other premium dues of the client in the broker’s books. This is in fact practically being done in the normal course of the business.</p>		<p>Disagree. See item H reply.</p>
	<p><b>An Insurance Broker</b> noted that this is not acceptable to them as they need to be able to collect client money (kept in appropriate separate funds, in accordance with current regulation) and then to be able to draw from the accounts the brokerage due to them and, simultaneously, settle appropriate funds to insurers.</p>		<p>Disagree. See item H reply.</p>
<p><b>CL-2.2.4</b> For purposes of Subparagraph CL-2.2.1 (b), any <u>client money</u>, an <u>insurance broker</u> or corporate <u>appointed representative</u> that is a financial institutions, receives and holds for an <u>insurance firm</u> must</p>	<p><b>An Insurance Broker</b> noted that this is in accordance with their current practice; however, premium payment normally includes commission/fee and their current procedure is to extract these elements and to transfer these amounts into their income and expenses account when received.</p>		<p>Disagree. See item G reply.</p>

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<p>be held in a <u>client money account</u>, properly segregated from the <u>insurance broker's and corporate appointed representative's own funds</u>.</p>	<p><b>An Insurance Licensee</b> noted that in 1<sup>st</sup> line last word should be “any” not “an” and in the 3<sup>rd</sup> line ”institutions” should read “institution”.</p>		<p>Disagree. Deleted the word “an” to structure sentence properly. Agree. Change made to “institution”.</p>
<p><b>CL-2.3.1</b> In instances when Subparagraph CL-2.2.1(b) applies, the <u>insurance broker and corporate appointed representative is solely responsible for collecting premiums/contributions from clients and passing these to insurance firms</u>. Any refund premiums/contributions due from <u>insurance firms, the insurance broker and corporate appointed representative shall pass these to clients immediately upon receipt from insurance firms</u>.</p>	<p><b>An Insurance Broker</b> noted that the wording of this particular clause as under Bahrain Commercial law, Insurance Brokers are not legally responsible for either premium or claims so long as monies pertaining to premium and claims have not been received by the insurance broker. It is kindly requested that this is made clearer or addressed separately in order to preserve the rights of insurance brokers under commercial law. Credit risk must be borne by the original suppliers or insurance firms as the broker’s role is to assist its clients with their insurance needs and facilitating the insurance purchasing process. If clients do not pay premium, insurance firms must have the controls in place to issue notice of cancellation due to nonpayment within accepted parameters of insurance policy in question.</p>		<p>Disagree. There is nothing in the Bahrain Commercial Law that deals with the collection of premiums by insurance broker. The contract between the insurance broker and insurance firm will dictate the collection of premiums and refund and should be drafted in accordance with the Rules contained in Module CL.</p>
<p><b>CL-2.3.3</b> Other than noted in Paragraph CL-1.1.6, <u>Insurance brokers and corporate appointed representatives must pay to insurance firms premiums/contributions</u></p>	<p><b>An Insurance Broker</b> noted that the proposal to pay insurers all client money received, no later than 15 calendar days after receipt of such payments, is neither practical nor possible and will, potentially, lead to confusion of all parties and will be to client detriment. There is the potential that Insurers will be slow in allocating to specific client payments and this, in</p>	<p>I</p>	<p>Disagree. Premiums are to be remitted as per Rule.</p>

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<p><b>received no later than (15) calendar days from the date of the receipt of such amounts.</b></p>	<p>turn, could result in them erroneously cancelling a client’s insurance cover and/ or non payment of their premiums to appropriate re insurers. This would all act to the detriment of the client.</p> <p>In addition, settlement of payments every 15 days would require a marked increase in the amount of work to be carried out by both the insurers’ and brokers’ accounting divisions, all at large, unnecessary additional cost.</p> <p>Finally, they have very strict procedures in place for the settlement/ payment of any money due. If they have to pay to insurers every 15 days , for reasons stated, the Insurer statements of account would not be up to date. They would therefore, have to settle premiums based upon their own accounting documents. Current systems in place do not allow(and it would be imprudent to allow) payments based entirely upon accounting documents generated ‘in house’ by a broker. There should always be a corroborating third party document to confirm that the payment amount is correct and is appropriately allocated.</p>		
	<p><b>An Insurance Broker</b> noted that premium will be received from multiple clients throughout each month whereas the broker will pay each firm it deals with on a monthly basis. It is not practical to make multiple payments to the firm throughout the month based on the dates of receipts.</p>		<p>Disagree. See item I reply. Premiums can be accumulated in a 15-day period and remitted every 15 days in total.</p>

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	<p><b>An Insurance Broker</b> noted that the proposal to pay insurers all client money received, no later than 15 calendar days after receipt of such payments, is neither practical nor possible and will potentially lead to confusion of all parties.</p> <p>Currently <b>the Insurance Broker</b> settles insurer accounts on a monthly basis after reconciling the statement provide by the insurer every month, any noted discrepancies has to be clarified before settlement or else the fund will stay as unallocated in insurers record and may put the client in high risk of non-coverage and my lead to other disputes. In addition, settlement of payments every 15 days would require a marked increase in the amount of work to be carried out by both the insurers and brokers accounting divisions adding unnecessary additional cost. This would all act to the detriment of the client.</p>		<p>Disagree. See item I reply.</p>
	<p><b>An Insurance Broker</b> noted that there is a brokerage agreement between the insurance company and the broker. There is a credit period allowed by the insurance company to the broker to settle the premiums due. This credit period which is a contractual agreement entered into with each Insurance company by the broker must be adhere to.</p>		<p>Disagree. See item I reply. CBB Rule supersedes contract and contract should be drafted in accordance with CBB Rules.</p>

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	<p><b>An Insurance Broker</b> noted that in order to assist both insurance firms and insurance brokers in complying with payment obligations, may the CBB consider raising the time allowed to 30 days so the accounts departments of both insurance firms and insurance brokers may conduct timely reconciliation? This is only a suggestion, and whatever regulation is formally adopted will be abided.</p>		<p>Disagree. See item I reply.</p>
<p><b>CL-2.3.4</b>  <u>Insurance brokers</u> and corporate <u>appointed representatives</u> are prohibited from deducting their brokerage commission from the premiums / contributions account(s). <u>Insurance brokers</u> and corporate <u>appointed representatives</u> must be paid separately their brokerage commission from the <u>insurance firms</u> after transferring the amounts due (premiums/contributions) to insurance firms no later than (10) calendar days from the receipt of the premiums / contributions by insurance firms.</p>	<p><b>An Insurance Licensee</b> suggested that this paragraph be changed to:  <i>“Insurance brokers and corporate appointed representatives are prohibited from deducting their brokerage commission from the premiums / contributions account(s). Insurance brokers and corporate appointed representatives must be paid separately their brokerage commission from the insurance firms after transferring the amounts due (premiums/contributions) to insurance firms <b>as per the terms and conditions agreed in the Terms of Business (Agency) agreement.</b>”</i></p>		<p>Disagree. The 10 days payment of the brokerage commission from the insurance firm to the insurance broker must be complied with in accordance with Paragraph CL-2.3.4 and the terms of Business (Agency) agreement must be drafted accordingly.</p>

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	<p><b>An Insurance Broker</b> noted that this will place additional burden on the broker as he will not only have to chase the client to pay the premium, he will have to chase the firm to pay the commission (not to mention the additional work for the firm).</p>	K	<p>Where the insurance firm does not comply with Paragraph CL-2.3.4, it will be subject to enforcement action by the CBB in accordance with Module EN (Enforcement) of Volume 3 (Insurance) CBB Rulebook.</p>
	<p><b>An Insurance Broker</b> noted that the proposal is in practice unworkable and will act to the detriment of clients, insurers and brokers. This mechanism will add more cost and administrative issues to both broker and insurers.</p> <p>For sure this cannot be applied to reinsurance placements/business, where PPW (Premium Payment Warranty) applies and the duty of a broker in collecting the claims from reinsurers etc has to be considered.</p> <p>Working to these time frames will cause confusion and will result in insurer accounts identifying “Unallocated Cash” on their systems. This will require a lot of time, money and effort on the part of insurers and Brokers to address these problems as well as the confusion that will be caused by the need of insurers to upgrade their accounting procedures and systems.</p> <p>Based upon current systems, working practice and practical experience, it is possible to estimate that, in the most optimistic circumstances, brokers would receive their commissions about two months after payment of premium to insurers.</p> <p><i>Note: In a certain case <b>the Insurance Broker</b></i></p>	L	<p>Disagree.</p> <p>Contracts between insurance brokers and insurance firms are to be drafted in accordance with the CBB Rules with respect to remittance of brokerage commissions.</p>

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	<p><i>took sixteen months to obtain its commissions from one insurer on the occasion when the client paid on a direct basis to local insurer.</i></p> <p>Brokers expenses has to be met only on the commission earned and if any such unexpected delays take occur may damage the growth of the firm and will create a negative cash flow situation in turn effecting the ability to provide prompt service to our clients.</p>		
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	<p><b>An Insurance Broker</b> noted that the insurance broker is working very hard to get the client and is therefore involved in marketing, soliciting, risk assessment, visiting client premises/ locations for risk inspection and then gets the wordings from various companies and then does various analysis and then finally secures the insurance for a particular insurance company. He therefore replaces the marketing, sales and other administrative tasks of the insurance company for which he gets his brokerage. He collects the premium from the client and pays it to the insurance company. He retains his commission from this money he collects and pays the net to the insurance company. If the onus to pay the broker is left to the insurance company there will be perennial problems and will lead to severe financial problems for the broker.</p> <p>It is strongly urged that the CBB kindly looks into this clause with a view to protect the interests of the insurance brokers. With the implementation of certification of the compliance of the bank accounts by the external auditors, a structure where commission is transferred from the premium account to the Expense account on monthly basis would be practical and effective and serve the interests of all concerned.</p>	<p>Disagree. See item L reply. Where non-compliance by the insurance firm, it will be subject to Module EN (Enforcement).</p>
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	<p><b>An Insurance Broker</b> noted that this clause creates a very large conflict of interest if it is applied to non-family Takaful/ life/ investment products. Insurance brokers represent the client and not the insurance firm.</p> <p>It is an insurance broker's duty to advise its client's without hindrance or preference, or bias as to which insurance products and which insurance firms to buy those insurance products and services from. This clause will inhibit an independent broker's ability to provide proper advice as well as fight for client's interests if the insurance broker must become dependent on particular insurance firms paying the insurance broker's remuneration.</p> <p>The fear is that insurance firms will utilize the power of the purse to obstruct the rights of policy holders whenever they have a material or immaterial difference with an insurance broker. Insurance brokers must be free to fight for their client's claims and assist their client in placing their insurances wherever it is in the best interest of the client.</p> <p>It is suggested with respect to CI-2.3.4 is to implement a similar system to that adopted by the Financial Services Authority (FSA) in the UK. In the UK, brokers are permitted to perform from time to time a client money reconciliation exercise to transfer in single transactions commissions due to broker on certain days of the month into the broker's capital account. In order not to hurt the financial position of insurance brokers in Bahrain,</p>	<p>Disagree. See item K and L replies.</p>
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	<p>it is recommended that the CBB considers permitting insurance brokers to perform 2 client money reconciliations each month to transfer any brokerage from the client money account into the broker's office account.</p> <p>The other alternative is to perform an agreed offset or debit/ credit exercise with insurance firms once every 30 days after which net premium is then settled in one single transaction to insurance firms. If such a system is adopted, then the control and audit process is simplified and reconciliations and reports can be submitted in a more timely fashion to the Central Bank in line with reporting requirements.</p>		
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	<p><b>An Insurance Broker</b> noted that the present practice of paying net premiums to the insurance company after deducting brokerage should continue. Otherwise, it will create lot of complications. In some cases insurance companies are not issuing credit notes for some classes of business. If premiums are paying without deducting commission, they will lose the chance of claiming commission in such cases.</p>		<p>Disagree. See items K and L replies.</p>
	<p><b>An Insurance Broker</b> noted that this would prohibit them from collecting their brokerage from premium accounts and would require them to make all payments to insurers within 15 days and then to be re paid commission due within a further 10 calendar days thereafter. Also, the 10 days does not take into account a wide raft of financial transactions that need to be considered and is, in practice, unworkable and will act to the detriment of clients, insurers and brokers.</p>		<p>Disagree. See item K reply.</p>

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	<p><i>Items not considered by this proposal:</i></p> <p>CL-2.3.4 makes an assumption that all transactions are taking place with Bahrain based insurers. This is not always the case. It is possible, especially in terms of Re Insurance, that the transaction is taking place with Re Insurers (perhaps in DIFC, QFC, etc) or with other International Brokers (for example placement into Lloyds, London or European markets).</p> <p>These will work on their own systems of accounting (all appropriately regulated by their own local regulators) and their systems will not allow for collection of premium in full and subsequent re imbursement of commissions, which is out of step with their working practices.</p> <p>This is certainly the case with the UK FSA who, whilst having strict regulation, do not have anything nearly as strict or severe as is currently being proposed by CBB.</p> <p>For reference please refer to <a href="http://fsahandbook.info/FSA/html/handbook/CAS/S/5">http://fsahandbook.info/FSA/html/handbook/CAS/S/5</a></p>	<p>Disagree.</p> <p>The terms of the contract between the insurance broker and insurance firm are to be drafted in accordance with Module CL requirements, respecting when premiums are to be remitted to the insurance firm and when the insurance firm is to pay the brokerage commission to the insurance broker.</p>
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	<p>Also, the proposed payment system suggested by CL-2.3.4 does not make provision for the collection of claims payments from the Re Insurance market. Normal market practice, for facultative claims at least, is that the broker will negotiate the claim and collect claims money and then pay this to the cedent insurer.</p> <p>It is not clear / identified if it is possible for this to be done under the proposed new regulation.</p> <p>Finally, the regulation does not take into account the issue of Premium Payment Warranties for re insurance placements. If the insurer collects all premiums from the retail broker then they may be using a re insurance broker to arrange re insurance placement.</p> <p>Re Insurance premiums are normally under strict PPW conditions and, as such, if there is any delay on the part of the Insurer in paying this money on then the Re Insurance may be cancelled due to non payment. This would be to the very serious detriment of the local insurer involved as well as the client who, ultimately is looking to the Re Insurance as the true financial security to support his risk.</p>	<p>Module CL does not allow insurance brokers to handle claims payments. These are to be dealt directly by the insurance firm.</p> <p>A Rule will be added to Module CL to make clear that while the insurance broker may assist the policyholder in the claims settlement process, funds related to the claims settlement are to be remitted directly by the insurance firm to the policyholder.</p>
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	<p><i>Comment of the practicality of this proposal:</i> As identified under CL-2.3.3 the time frames involved in this proposal are not possible given the time required, by insurers, to issue client documentation and accounting documents and, therefore, to get appropriate accounting entries onto their systems. Working to these time frames will cause confusion and will result in insurer accounts identifying “Unallocated Cash” on their systems. This will require a lot of time, money and effort on the part of insurers and brokers to address these problems as well as the confusion that will be caused by the need of insurers to upgrade their accounting procedures and systems. As earlier explained, this will be to the detriment of clients and insurers but will also be unworkable and impractical for brokers. Apart from the items mentioned above, but for the reasons stated, Insurers will not be able to pay brokers their commissions within 10 days after receipt of premiums. Based upon current systems, working practice and practical experience, it is possible to estimate that, in the most optimistic circumstances, brokers would receive their commissions about two months after payment of premium to insurers.</p> <p>N.B. in certain circumstances and under current working systems it can (and has) taken ID many months to obtain commissions from</p>	<p>Disagree. Insurance brokers must put in place the necessary systems to comply with this requirement.</p>
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	<p>insurers on those occasions when the client has paid on a direct basis to local insurers.</p> <p>As such, ID would need to consider their cash flow situation, which would be negatively affected by the proposal made in CL-2.3.4. At best it is estimated that there would be a requirement for three months' cash flow to be met by ID to allow this system to be operated and, as such, would have a negative effect on the ability of ID to grow it's business and to provide prompt / correct service to its clients.</p> <p>As such this is not a practical option and is one that is, in the opinion of ID, impractical and non workable.</p>		
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<p><b>CL-2.3.5</b> Insurance brokers and appointed representatives are prohibited from collecting additional charges (other than the quoted premiums/contributions) from clients. Insurance brokers and appointed representatives can only charge clients the premiums/contributions quoted by insurance firms. (See BC-2.8.1)</p>	<p><b>An Insurance Broker</b> CL-2.3.5 restricts brokers from charging the client more than the premium quoted by insurers. This is noted but does not take into account the situation whereby the client may want full brokerage / commission returned to them and for the broker to work on the basis of a fee. CBB comment on this situation / scenario would be appreciated.</p>	M	<p>Guidance will be added to Module CL. Insurance brokers can offer other services to the policyholder on behalf of the insurance firm, such as the issuance of policy documentation. Such other services should be dictated in a separate agreement between the insurance broker and the insurance firm.</p>
	<p><b>An Insurance Broker</b> noted that at present they are collecting service charges on third party motor business. If this module comes into effect they cannot collect any additional amount from the client other than premium quoted by the insurance firms.</p>		<p>Service charges are not to charged to the policyholder unless it can clearly relate to other services provided to the policyholder by the insurance broker on behalf of the insurance firm. See item M reply.</p>
<p><b>CL-2.4.1</b> The <u>insurance broker</u> must immediately notify in writing the <u>insurance firm/Takaful firm</u> if the <u>insurance broker</u> fails to collect the amount due from the concerned clients within the agreed</p>	<p><b>An Insurance Broker</b> would like to know the outcome / objective of such notification and the implication thereof.</p>		<p>Such notification will allow insurance firms to cancel any coverage offered.</p>

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<p><b>premiums/contributions payment terms dictated by the <u>insurance firm</u>.</b></p>	<p><b>An Insurance Broker</b> stated that if they notify the non-collection of premiums to the insurance firm, they have the option to cancel the policies. Naturally it will affect the cordial relations existing with the customers. In addition, since an agreement between insurance companies and brokers existed it is the responsibility of the broker to pay the insurance premium whether the insured pays the premium or not. For certain classes of insurance they are getting more than 15% commission from the insurance companies. This Module will prevent them from taking such extra commission.</p>		<p>Disagree. The insurance broker does not have the responsibility to pay the premium to the insurance firm until such time as he receives such premium from the policyholder.</p>
<p><b>CL-2.4.2</b> <b>Brokerage charged by <u>insurance brokers</u> cannot exceed 15% of the premiums/contributions quoted by <u>insurance/Takaful firms</u> for direct general insurance business.</b></p>	<p><b>An Insurance Broker</b> noted that CL-2.4.2 proposes to restrict brokerage to 15% of the premium. At present, brokerage varies from firm to firm based on what type of business each wishes to attract. Examples are Nil for Motor Third Party, 10-15% for Motor Comprehensive, 5-10% for Health and Medical, 15% or more for Property and other classes. The broker would be hurt by such a restriction as the higher commission's receivable on certain classes would not be available to balance the lower commission's receivable on other classes.</p>	<p>N</p>	<p>An amendment will be made whereby the Rule on the 15 % limit on brokerage charge for direct general business will only apply to motor and medical classes of insurance.</p>

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	<p><b>An Insurance Broker</b> noted that the proposal requires that <b>the Insurance Broker</b> cannot earn more than 15% brokerage on direct / general business. All dealings with local insurers are governed by the Agency/Broker agreements which clearly classify the level of brokerage on each line that can be paid to brokers. On certain cases brokerage depends on the profitability of the insurers and the level of work that is required from the broker to service that client, such brokerage levels range above 15% depending upon class of business and agreed by the insurers.</p> <p>It is the opinion of <b>the Insurance Broker</b> that such brokerage levels should be open to discussion and negotiation between <b>the Insurance Broker</b> and the insurers and should not be the subject of such severe restriction, which in turn will affect the growth of <b>the Insurance Broker</b>. Alongside it is agreed that such commission should not be to the client's detriment.</p>		See item N reply.
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**Industry Comments –Proposed Module on Client Money for CBB Rulebook Volume 3 (Insurance)  
August 2011**

	<p><b>An Insurance Broker</b> noted that the broker spends extensive time and efforts on all insurance covers other than motor policies. If we take examples of classes where the commission is higher it will be for CAR/EAR/LOP, PROFESSIONAL LIABILITY/ PROPERTY / CASUALTY / PUBLIC LIABILITY / BBB / SPECIAL CONTINGENCY INSURANCES ETC. the effort the broker puts in these policies is extremely high. It also happens that all efforts does not get him results and he may not be successful in all attempts as some times the client will use the expertise of the broker, use his workings and then go direct to the insurance company and place the business directly. Hence the efforts of the broker is also misused and wasted in some cases. In order to compensate the broker, internationally the commission on such classes has been kept even higher than 15%. The cap on commission to 15% may be counter productive to the growth prospects of the insurance brokers in Bahrain. The insurance brokers act as marketing arm of insurers by employing specialized personnel, providing unbiased advises to client which consumes a lot of time and energy, by investing time and money to render intense levels of services to clients, by allocating special training and education modules to improve the understanding of the client on the subject of risk and insurance transfer methodologies. Here 15% commission by itself proves to be inadequate to meet all the obligations</p>	<p>See item N reply</p>
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	<p>of insurance brokers. It is therefore suggested to do away with any cap on commissions. If however this provision has to be retained then we suggest that the commission rate may be capped at 20% rather than 15%.</p>		
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August 2011**

	<p><b>An Insurance Broker</b> noted that while it is understood that there may be some argument for limiting brokerage to 15% in respect of personal lines insurance such as motor, household buildings and contents as well as medical insurance, it is not believed that a cap is appropriate in respect of commercial business or specialty lines, all of which should be negotiated with insurers and disclosed transparently to clients. Additionally, in accordance with the CBB rulebook, full remuneration is disclosed whenever requested to do so.</p>		<p>See item N reply</p>
	<p><b>An Insurance Broker</b> strongly recommend that this clause be deleted all together as it is a form of tariffication and conflicts with the principles of a free market economy as well as any free trade agreements they subscribe to as a Kingdom. Commissions earned by brokers in every domicile in the world are left to brokers and underwriters to discuss and negotiate. For example in London market, it is not uncommon at times to collect up to 35% in commissions or fees where the class of insurance or services rendered to the client merit this.</p> <p>Imposing a market cap on the percentage of commission that an insurance broker may earn effectively restricts the quality and range of services insurance brokers can offer their clients. As Bahrain is a progressive economy and a market that has always lead by example, the principles of “Laissez-faire” must be not damaged on account of</p>		<p>See item N reply</p>

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	<p>the few insurance firms that still view insurance brokers as costs or impediments in the market place.</p> <p>Today's client is no longer content with the traditional insurance salesman. Clients want risk management advice, business continuity planning, risk surveying, assistance with collation and presentation of claims to underwriters, and quantitative risk analysis especially when it comes to Bahrain's manufacturing and government sector. Restricting broker remuneration will limit insurance broker's ability to provide these progressive services to the commercial and industrial concerns in the country. Restricting commissions will also hinder innovation and lack of product development in the market which to date has always come from the insurance brokers in response to client needs and not from insurance firms in Bahrain.</p> <p>Lastly, as the Kingdom continues to encourage foreign investments, the ability of the market to provide sophisticated insurance and risk management advice to multinationals extremely crucial. Restricting broker remuneration will certainly hurt the market's image with respect to the quality of financial services and risk transfer advice available to foreign corporations as the local insurance broker begins to disappear in the market.</p>		
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	<p><b>An Insurance Broker</b> noted that all dealings with local insurers are governed by the Agency / Broker agreements that are entered into and, as part of these agreements, there is a section dealing with the level of brokerage that can be paid to brokers.</p> <p>The level of commission / brokerage varies depending upon profitability of that class of business to insurers and the level of work that is required from the broker to service that client / class of business.</p> <p>Currently, such brokerage levels range from 5% to 20% depending upon class of business and insurers.</p> <p>In their opinion such brokerage levels should be open to discussion and negotiation between them and the insurance markets and should not be the subject of such severe restriction or regulation from CBB. It is, however, agreed that such commission should not be to the client's detriment and it is our opinion that current market practices and brokerage levels should be allowed to prevail.</p>		See item N reply
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