

MODULE	BC: Business and Market Conduct
CHAPTER	BC-4: Customer Account Services and Charges

BC-4.21 Insurance Cover on loans

BC-4.21.1 The requirements in this Chapter apply to conventional retail bank licensees which seek life or other insurance cover in respect of loans to a borrower.

BC-4.21.2 Conventional retail bank licensees using insurance cover as risk mitigant for its loans must comply with the following requirements:

- (a) Credit policies must specify whether the licensee will bear the cost of insurance cover or if it will recover the cost from the customer;
- (b) If a customer wishes to buy his own insurance cover, the licensee must not refuse to accept assignment of such policy, however, the licensee may require the customer to ensure that the insurance policy terms, duration and features match its requirements;
- (c) If insurance is arranged by the licensee for its customer, the cost recovered from the customer must be the actual cost paid by the licensee to the insurance provider;
- (d) In the case of group insurance cover, the cost to be recovered from the customer must be calculated on a proportionate basis with reference to:
 - i. The reducing loan outstanding balances at the end of each month relevant to the customer; and
 - ii. The insurance premium rate quoted by the relevant insurer.
- (e) Licensee must not receive any commission from the insurance provider and/or receive any commission from the borrower;
- (f) Full disclosure must be made to the customer prior to signing the loan agreement regarding:
 - i. The terms of the insurance coverage and name of the insurance provider;
 - ii. Benefits and exclusions;
 - iii. Need for medical examinations, underlying illnesses not covered and the implications of health conditions on the insurance cost or the insurance claim;
 - iv. Payment method for the insurance cost (i.e. one time upfront payment or addition to loan amount and recovered as part of repayment instalments);
 - v. The insurance premium rate currently applicable and
 - vi. The basis and method of calculation of the insurance cost at the time of granting of the loan;
 - vii. Refund/adjustment of insurance cost in the case of early repayment/ pre-payments and top-ups;

MODULE	BC: Business and Market Conduct
CHAPTER	BC-4: Customer Account Services and Charges

BC-4.21 Insurance Cover on loans (continued)

- (g) Customers must be informed in writing if:
- i. There is a change in the insurance provider in the case of individual insurance cover;
 - ii. There is a possibility of additional costs to be recovered or refunds in case of upfront payments due to changes in insurance premium rates; and
 - iii. Additional insurance costs would be recovered from the customer if loan repayment instalments are not paid on time; and
- (h) The statements of account must clearly show the insurance cost as a separate item where applicable.

BC-4.21.3 If licensees decide to restructure the loan but cannot obtain insurance coverage due to the customer's age or due to a 'retiree' status, they must inform the customer in writing about the unavailability of insurance for the extended loan period. In such cases, the licensee must not demand full repayment of loan by the customer due to the customer's age.

BC-4.21.4 Licensees' credit policy must specify, at a minimum, the following:

- (a) Disclosures to be made to customers prior to signing of the loan agreement;
- (b) Age limits, if any, that apply for insurance cover as per the licensee's arrangements with the insurer and the options available to customers not meeting the age limits;
- (c) Measures or implications of default or extension of tenor for any reason, particularly for loans which have an expiry date falling in a higher age bracket at the time of grant of the loan; and
- (d) Any additional terms that apply to customers who fall within the higher age bracket.

BC-4.21.5 Licensees' credit policy must also specify its approach with regard to lending and the corresponding insurance coverage implications for customers who fall within higher age groups (to be defined by the licensee) and those who have retired from employment or will retire during the tenor of the loan.

BC-4.21.6 For the purposes of BC-4.21.5, extension of loans to individuals who are beyond the retirement age should take into account, in addition to other factors, the increases in life expectancy in Bahrain and the general trend in loss ratios. For this purpose, licensees should agree with their insurer the terms, conditions and procedures in order to meet the needs of individuals above the insurable age of the group loan portfolio and consider measures to be taken in the case of exceptional scenarios such as a customer in the higher age group needing to restructure a facility.

MODULE	BC: Business and Market Conduct
CHAPTER	BC-4: Customer Account Services and Charges

BC-4.21 Insurance Cover on loans (continued)

BC-4.21.7 Licensees using group insurance cover must perform a due diligence of the insurance provider at periodic intervals to ensure optimum benefits are obtained for their customers. The due diligence must also involve assessment of various insurance plans and loss ratios.

BC-4.21.8 If the insurance provider is a related party of the licensee, the insurance cost must not be higher than the market quotes for similar insurance cover.

CONSULTATION