

# Technical & Financial Questions



# Technical & Financial Questions

- 1 The Bylaws clarified details about most classes of insurance but not enough for the protection and savings. How SAMA is going to deal with this since the earnings and expenses of this class of business are different from other classes which will effect the results for the first years.



# Technical & Financial Questions

- 2 According to SAMA guidelines discussed in Jeddah meeting, insurance companies can retain 30% of premiums and reinsure 30% in the local market. Accordingly SAMA to clarify that the allowed reinsurance percentage should consider the local reinsurance share as a part of the reinsurance share outside the kingdom.



# Technical & Financial Questions

- 3 In addition, will the above be enforced from the beginning? Noting that not enough companies will be operating in KSA at the first stage.



# Technical & Financial Questions

- 4 Article 54: Cancellation notice is 30 days, while it is sometimes less than 30 days in international insurance standards such as War risks



# Technical & Financial Questions

- 5 Article 3: Pertains to insurance service providers states that each individual should get a license. Why in the last meeting, it was indicated that Agents or Brokers should operate as companies not individuals.



# Technical & Financial Questions

- 6 Is it allowed for an individual person to get a license as a broker or agent under the foreign investment law.



# Technical & Financial Questions

- 7 Can an Insurance Agent be a representative of several insurance companies at the same time knowing that some companies do not provide all kinds of Insurances? Can also an agent represent various insurance companies based on regional basis (Jeddah-Riyadh) since also some companies may not have branches kingdom wise?



# Technical & Financial Questions

- 8 Is it required for individuals providing insurance services to complete an exam especially that many of them have more than 15 years of experience in the industry ? What about the senior positions and managers?



# Technical & Financial Questions

- 9 It is sometimes a general practice that insurance companies pay cash commissions to third parties other than Agents and Brokers. Is this considered to be an internal issue for insurance companies under the new law away from SAMA's supervision?



# Technical & Financial Questions

10 Is it allowed for a Saudi Broker to deal with GCC or Foreign Companies.



# Technical & Financial Questions

11 Article 14: Is it required to obtain the written approval for each time the Company deals with foreign re-insurers or reinsurance brokers? What if the company received a firm order from its client and SAMA was late in granting the approval and a claim incurred? This will oblige the company to settle the claim from its Capital. Please clarify.



# Technical & Financial Questions

12 Article 18: Since SAMA determines the re-insurers who can provide cover for the local insurance and at the same time approves the management of the companies upon registration. Why SAMA then is tying the insurers hands by requesting prior approvals on the Treaties and other technical reinsurance issues?



# Technical & Financial Questions

13 Article 20: Actuaries are required to analyze, study and price risks in life, medical and pension schemes, while underwriters are usually the experts in doing the same in other classes of business. The question is how is it possible for an actuary to make recommendations on Company's investments since the investment percentages were determined by SAMA.



# Technical & Financial Questions

14 Article 33: For all insurance classes what does SAMA mean by “minimum and maximum limit”?



# Technical & Financial Questions

15 Article 46: The basics of pricing are statistics that are not available in the local market at present.



# Technical & Financial Questions

16 Article 47 & 48: Assumes that reinsurance shares which will be deducted from technical provisions and Company's Portfolios should not exceed 10 times the Capital. Does SAMA mean 10 times retention value and not premiums (please explain).



# Technical & Financial Questions

17 Will banks be allowed to market and sell insurance products to corporations and individuals?



# Technical & Financial Questions

18 Since some of the Arabic translated policies are not sufficient for re-insurers especially on the liability side, is it possible to write these policies in English to avoid conflicts?



# Technical & Financial Questions

19 Clear definition of “Reciprocal Exchange”. Is it pooling?



# Technical & Financial Questions

20 Is it required for individuals working in insurance to have a specific educational background i.e. Bachelor, Master ?



# Technical & Financial Questions

21 What is the “Inter Companies Insurance Funds” ? Is it “Co-Insurance” ?



# Technical & Financial Questions

22 Do Banks have the right to sell insurance policies issued by Companies registered outside KSA ?



# Technical & Financial Questions

23 For an insurance and reinsurance company do we need a capital of SR 200M or 300M ?



# Technical & Financial Questions

24 Is a GCC reinsurance company considered as a Saudi reinsurance company whilst meeting 30% local reinsurance regulation ?



# Technical & Financial Questions

25 Can SAMA confirm that the intention of Article 46 (2) is to prohibit deliberate pricing of a product as a “loss-leader” and is not intended to relate to products where a loss is caused simply by a worse than expected experience ?



# Technical & Financial Questions

26 Article 66 describes the appropriate (solvency) margin for General Insurance business. We have several questions as follows:

- i- In relation to the Total Underwritten Premiums Method (part b): If a company retains less than 50% of its premiums, the rules imply that a minimum of 50% of total premiums is to be used in the calculation. Is this correct?



# Technical & Financial Questions

26 Article 66 describes the appropriate (solvency) margin for General Insurance business. We have several questions as follows:

- ii- In relation to Claims Method (part b) – Total claims for the past 3 years: Does this refer to total “incurred claims”? It is noted that deliberate under-reserving would lead to lower incurred claims and hence lower leverage.



# Technical & Financial Questions

27 According to the new Law, it is required that Business plans & Feasibility Studies be completed by actuaries. Though actuaries are not available in KSA for the current stage, is it possible to have these studies done by Financial Advisors licensed in the Kingdom? Does SAMA have a credited list of such advisors?



# Technical & Financial Questions

28 According to SAMA there are three alternatives available for Companies to register, is it possible for SAMA to recommend credited list of advisors that could be hired to evaluate the Companies ?



# Technical & Financial Questions

29 Companies would like to ask for the text of Bank guarantee letter that is required. Is it available ?



# Technical & Financial Questions

30 SAMA should inform Banks to issue Bank Guarantees for companies based on current ratio's adapted in the market and not necessarily the availability of the 100% cash for whole amount



# Technical & Financial Questions

31 Article (55) assigns time limits for setting claims presented by individuals or companies. We believe that settlement should be based on the claims amount regardless whether or not the insured is an individual or corporate.



# Technical & Financial Questions

32 The declaration of the Brokers Commission to client will limit their activities. This is in fact not applicable any where in the world.



# Technical & Financial Questions

33 Bylaws state that 10% of the Capital should be paid at the first 3 months from the decree. What about the remaining 90% ?



# Technical & Financial Questions

34 If a private company or a Bank are the prime owners of a certain insurance co. would that delay the IPO ?



# Technical & Financial Questions

35 Will companies be allowed to take off the 10% statutory deposit at SAMA from Zakat base since it is a blocked Capital ?



# Technical & Financial Questions

36 Is it allowed to load insurance policies at certain rates to cover miscellaneous expenses.

- Supervising Fees paid for SAMA
- Tax on profits to re-insurers
- Health Committee expenses.
- Renewal licenses for the Underwriting of Health Insurance
- Expenses that might be incurred in the future for fees or tax



# Technical & Financial Questions

37 Will investment restrictions apply to the paid-up capital in excess of Technical Allocations and statutory reserves ?



# Technical & Financial Questions

38 Article 40 indicates that companies must retain 30% or more of premium and that at least the first 30% of reinsurance should be reinsured within the Kingdom. Where an insurer has reinsurance arrangements (at the date of effect of the Rules) that do not meet the requirements of Article 40, can those arrangements be maintained until their natural termination or must the arrangements be modified to comply with Article 40? Will there be a phasing in of this requirement for companies that are currently outside these limits?



# Technical & Financial Questions

39 Can SAMA confirm that it does not expect products to automatically be re-priced after any loss has been incurred (possibly due to a single large claim) but that normal good practice and professional judgment can be applied to determine the relevance of the loss to future expected experience ?



# Technical & Financial Questions

40 Article 48 requires a check to ensure total underwriting does not exceed ten times the paid-up capital and reserves. Can SAMA clarify the meaning of “underwriting” in this article? For example is this related to premium received or the underwritten sum insured?



# Technical & Financial Questions

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# Technical & Financial Questions

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# Technical & Financial Questions

42 Article 69, calculation of Technical Allocations.  
We have several questions as follows:

- i- 1c - Claims settlement expenses. Does this refer to "indirect" expenses such as the cost of running the claims department which will settle claims, or only to "direct" expenses (i.e. legal and loss adjustment expenses in relation to settlement of a claim)?  
[Note, 2-b suggests that case estimates are estimates of claims payable only, with separate allowance for claims settlement expenses, with the sum equal to the estimated total outstanding claims liability.]



# Technical & Financial Questions

42 Article 69, calculation of Technical Allocations.  
We have several questions as follows:

- ii- 1e - Unexpired Risks. If expected losses are greater than the risk premium (total premium less expenses, commissions and profit loading) then the Unearned Premium Reserve is unlikely to be adequate to meet future liabilities. What is the basis of any additional reserve for Unexpired Risks (or Premium Deficiency Reserve)? Is it to be estimated by the actuary on a subjective basis?



# Technical & Financial Questions

42 Article 69, calculation of Technical Allocations. We have several questions as follows:

- iii- 1f - Disasters. On what basis is it expected that such contingent reserving be determined? For example, only for events which have a 1 in 250 year "return period" or more frequent? Are such reserves allowed any particular taxation benefits?



# Technical & Financial Questions

42 Article 69, calculation of Technical Allocations. We have several questions as follows:

- iv- 1g - General Expenses. What specifically are these in relation to (see also query on 1c. above.



# Technical & Financial Questions

43 Article 70 also refers to a requirement for 20% of net income to be transferred to statutory reserves until the reserves are equal to 100% of paid up capital. Can SAMA clarify the status of such reserves and in particular, whether they are held by the company or by SAMA, to whom any investment yield in such reserves will accrue and whether these statutory reserves have to be considered as technical allocations for the purpose of calculating the required leverage ?



# Technical & Financial Questions

- 44 Article 48 requires that without prior approval from SAMA, company underwriting shall not exceed ten times the paid up capital and reserves of the company. For some classes of business, such as annually reviewed Group Credit Term Assurance, the sums assured are very high compared to the reserves being held and even at a moderate level of sales the ten-fold limit is likely to be breached. Does SAMA intend to make an exception for such classes of business or is prior approval required on a case-by-case basis? If the latter, then how often would such prior approval be required – just once when that business class is launched, or periodically as the existing portfolio of such business increases ?



# Technical & Financial Questions

45 Articles 3 and 19 indicate that for the company to work with actuarial and other consultants those consultants must first be licensed. Is this license requirement according to international standards and those applicable in the country of residence of these consultants or must these consultants be licensed by SAMA?



# Technical & Financial Questions

46 Insurance Company accepting inward Fac' reinsurance – In the current market this practice is widespread. This may weaken the quality of security for the consumer. What is SAMA attitude to this? If not in favour will SAMA also restrict the use of multiple co-insurance as an alternative mechanism ?



# Technical & Financial Questions

47 Will coinsurance be allowed between Insurance Companies?



# Technical & Financial Questions

48 Question about the Zakat situation as most investments of the new insurance company beside the Saudi treasury bonds are not acceptable to Zakat from our old experience. Zakat accepts long-term investments like fixed assets which in turn are not allowed in the executive list. The new company will face a Zakat of 2.5% based on the total of its capital reserves and the profit.



# Technical & Financial Questions

49 Article 14 refers to prior consent before dealing with a Lloyd's broker /foreign companies . Aon is a Lloyd's broker in the UK, so does that automatically allows us to be authorize to deal with our mother company without referring to SAMAA, if our application shows that we, in London are a Lloyd's broker ?



# Technical & Financial Questions

50 Article 26 item 2 refers to that the broker can export any surplus to the overseas Companies, however, item 3 of the same article prohibit any reinsurance placed by the same broker. Those two items are contradictory, any surplus placed overseas has to be now on reinsurance basis for reasons we all know (tax reasons, new law etc.) Needs clarification.



# Technical & Financial Questions

51 Art 8 - again mentions insurance and reinsurance capital required, however, point 1 only states SR 3,000,000 for insurance brokerage and does not mention reinsurance. Can we assume that this SR 3,000,000 is for doing both activities ?



# Technical & Financial Questions

52 Art 36 ..... and the Insurance Brokerage  
Relates to first question – if there are two  
definitions for insurance brokerage and  
insurance and reinsurance services  
providers, does the services provider not  
pay any fees?



# Regulatory Questions



# Regulatory Questions

- 1 According to the Bylaws, insurance Companies will deposit 100 million Cash then they will invest 90% in investment to schemes supervised by SAMA. Is this applicable for Capitals of the Insurance Services Providers ?



# Regulatory Questions

- 2 Can a broker be a shareholder in an Insurance Company & vice-versa? Does any Insurance Service Provider have the right to own public shares in Insurance Companies ?



# Regulatory Questions

- 3 When Should Insurance Agents apply to SAMA? Before or after establishing an Insurance Company? As it is supposed that Insurance Company should approve the agent first prior to submitting its documents to SAMA.



# Regulatory Questions

- 4 Article 28 -part2- Explain the word “in the Kingdom”. Suggest to exclude this at the first years.



# Regulatory Questions

- 5 When will the law be implemented on newly established Companies ? And what is the period allowed to the existing Companies to Register ?



# Regulatory Questions

- 6 Can an insurance broker deal with Insurance Companies in the GCC or abroad?



# Regulatory Questions

- 7 Can Capital be used for operational expenses ? (own building as an office).



# Regulatory Questions

- 8 No entity was assigned to settle disputes and disagreements ? Will SAMA play that role, or will it remain the Ministry of Commerce's responsibility ?



# Regulatory Questions

- 9 Explain alternative 3: How can we incorporate in KSA a Bahraini company?



# Regulatory Questions

10 How can we show the historical numbers in our projections ? Can we say in our feasibility study and/or business plan that the company was already operating in KSA? What do they do to Old co employees ? Can they be transferred to New co with their indemnities ?



# Regulatory Questions

- 11 Can we present the feasibility study and business plan in English or it has to be in Arabic ?



# Regulatory Questions

12 Can individual agents recruited by insurer be part of requirements to comply with Saudization Plan ?



# Regulatory Questions

- 13 Article 58 implies that investment yields on the statutory deposit shall go to SAMA. This effectively increases the cost of capital to providers and effectively puts the industry at a disadvantage when compared to the insurance industry in other territories. Can SAMA confirm that this Article will be modified to allow the yield on the capital, though deposited with SAMA, to accrue to the benefit of the company – or possibly to be used to offset the statutory fee required? If this income can accrue to the company, will it be subject to tax?



# Regulatory Questions

14 Will investment restrictions apply to the paid-up capital in excess of Technical Allocations and Statutory Reserves?



# Regulatory Questions

- 15 Is it expected that the solvency margin (or leverage) will have similar investment restrictions as the underlying technical allocations ?



# Regulatory Questions

16 What is the required qualification / experience of surveyors and adjusters ?



# Regulatory Questions

17 How long can we keep the Bank Guarantee after paying the SR. 10 Million?



# Regulatory Questions

18 Will the individual surveyor/adjusters working for a survey/adjusting company be expected to apply and receive license?



# Regulatory Questions

19 When will the application for registration of surveyors/adjusters be available ?



# Regulatory Questions

20 What are the documents required for submission with the application of registration of surveyors/adjusters ?



# Regulatory Questions

21 Time Table – For acceptance of applications from existing companies ?  
Closing date after which non license holders must cease trading ?



# Regulatory Questions

22 The point here is whether SAMA intends that reinsurance will be restricted to Reinsurers licensed as such by SAMA or approved by them if a foreign entity.



# Regulatory Questions

23 Does an insurance brokerage equal a sub agent ? How are Sub-agents considered ? Under a Brokering house?



# Regulatory Questions

24 Art.1 point 26 – mentions a person who is licensed to engage in insurance and reinsurance activities. Does this mean one person can do both? See Art 4 below



# Regulatory Questions

25 Art 4 Second – Insurance and reinsurance services provider. Does this mean you can apply for one license and have one company doing both activities under one company but you have to keep separate book recordings ?



# Regulatory Questions

26 Art 7 point 4 – the licensing fee payable to SAMA is SR 25000 for both insurance and reinsurance . Does this mean the company can do both and does this include that a broker employed by a brokerage firm can do both activities ?



# Regulatory Questions

27 Art 9 – professional liability cover Why do you have to have two covers for one activity being a “insurance and reinsurance” services providers ?



# Regulatory Questions

28 Art 14 - Aon is a Lloyd's broker in the UK, does that allow them automatically to approach Lloyd's or foreign companies ?



# Regulatory Questions

29 Art 24 & 25 – It is the only time that they mention **INSURANCE BROKERS** – why the change from insurance and reinsurance services providers ?



# Regulatory Questions

30 Art 42 – reinsurance treaties : It only states A Company can go outside. Can a broker company be involved in this? What is the requirement for a Bahraini company that wants to do reinsurance and treaty business in Saudi? Can a Bahraini registered company do business in Saudi ?



# Regulatory Questions

31 Art 75 Again mentions Insurance Brokerage and Insurance Agency. Does this exclude the services provider or are they the same thing? Why then are there two definitions ?



# Regulatory Questions

32 Does it need to be two licenses? Can you have a consultancy Company but all the administration is being done in another Company with charges for expenses meaning, it is not a full Company for administration purposes but has an outsourcing agreement for back office activities ?



# Regulatory Questions

33 Do the Saudi companies registered in Bahrain have the right to become shareholders of the new insurance companies set up in Saudi and up to which percentage ?



# Regulatory Questions

34 Still we are confused if companies with a 200 million capital can write fac inward business or not ?



# Regulatory Questions

35 Under item 3 they refer to the person who will practice free professions practitioners must have university degree or 5 year experience, who do they refer to exactly ? The board, the marketing /account executive, or there is certain criteria such as any person dealing with clients or insurance market?



# Regulatory Questions

36 Article 22 states that if we are licensed to be an insurance broker, we cannot be an insurance consultant at the same time without prior permission from SAMA. Because of our work which includes broking and consultancy appointments, can we apply right from the outset for both licenses ? Will it be combined licenses or two separate licenses ? i.e. do we have to apply separately for both licenses ?



# Protection, Savings & Takaful Questions



# Protection, Savings & Takaful

- 1 Article (36): The company and the insurance broker shall pay to SAMA the annual supervisory and inspection fees as follows:
  - The company shall pay (0.5%) of the total premiums underwritten fore the fiscal year after setting aside share of the local market of the reinsurance
  - The insurance and/or the reinsurance broker shall pay (1%) of the total commissions and fees gained by him during the fiscal year.



# Protection, Savings & Takaful

- 1 Life insurance premiums normally consist of two elements: (a) risk protection (b) investment/savings. For example, in an “Endowment Plan” a greater proportion of the gross premiums goes for investment/savings element (A) rather than for risk protection element (B).

What is the exact definition of “Total Premiums underwritten”:

- Risk premium only or
- (A) +(B) risk plus investment component?



# Protection, Savings & Takaful

- 2 (Article 3) Can you confirm that yearly renewable Group Credit Insurance (or any group insurance business without a savings element) is classified in the category “Life Insurance and Savings” business and then in the sub-category “Life Insurance” ?



# Protection, Savings & Takaful

- 3 Is the 4% of technical allocations actually meant to relate to 4% of technical allocations (reserves) net of reinsurance, which is in line with international practice (under sub-points 2 &3, total coverage can be reduced by up to 50% to allow for reinsurance coverage) ?



# Protection, Savings & Takaful

- 4 Article 69 defines the technical allocations to be calculated. However it is unclear which of these provisions relates to life insurance (without savings). Can SAMA please clarify this point ?



# Protection, Savings & Takaful

- 5 Article 52 refers to the information on an insurance policy that should be provided to the public. How is this intended to operate with group policies where the policyholder is not the same as the person(s) insured? Can SAMA confirm that once the general policy information has been provided to the policyholder, the specifics of the cover provided—including details of the lives insured – could be provided in a less formal manner that is acceptable to policyholder (for example, by providing a schedule of lives insured rather than a separate form for each life insured) ?



# Protection, Savings & Takaful

- 6 Assuming that Article 67 is assumed to apply to Life Insurance (without savings), can SAMA confirm that Group Credit Term Assurance business, where the policy covers the whole group but the coverage is decided at an individual level, would be considered to effectively provide coverage to groups and hence would benefit from the reduced leverage requirement ?



# Protection, Savings & Takaful

- 7 Article (70) – C: At the end of each year, the total surplus is determined representing the difference between the premiums and compensations after deducting the marketing, administrative and operational expenses and the necessary technical provisions. The Article assumes that Operating Cost will be borne by Life fund or General Insurance fund.



# Protection, Savings & Takaful

- 7 Under the new Insurance Act, how will the Operator get reimbursed of such expenditure from life or general insurance fund? Do you allow Takaful Operator to operate on wakala basis where fees are chargeable to participants ?



# Protection, Savings & Takaful

- 8 Article (70): The following point shall be considered on development of the insurance transactions statement by the company: e) The net surplus shall be distributed with a ratio of 10% to the insured wither directly or by reducing of their premiums for the next year , and 90% to be carried forward to the shareholders earnings list. In traditional life insurance, there are two types of products: participating and non participating plans.



# Protection, Savings & Takaful

- 8 Examples of participating plans are “Endowment Plans” and “whole Life with Profit”. Examples under non-participating plans are “Term Insurance” and “Non-par whole Life”. Under the former, policyholders are entitled to receive surplus generated by insurance fund with greater proportion of the amount accruing to policyholder than to insurer/shareholder. Under the latter, all surpluses belong to insurer/shareholder.



# Protection, Savings & Takaful

- 8 In takaful industry which operates on cooperative basis, surplus would either be equally distributed between participants (policyholders) and Operator (Insurer) or participants will normal enjoy larger share of this surplus amount. The Article assumes that Operating Cost will be borne by Life fund or General Insurance fund.



# Protection, Savings & Takaful

8 Question #1: Is the rule in Article 70 applicable to participating plans as well as non-participating plans?

Question #2: Is the ratio of 10:90 rigid ie insurer is not allowed to distribute more than 10% of surplus to policyholder?

Question #3: What about the case of takaful products where surpluses may belong 100% to participants under some takaful models?



# Protection, Savings & Takaful

- 9 The Implementing Rules (“Rules”) defined three categories of insurance: General Insurance, Health Insurance and Life Insurance and Savings. Is it intended that the life insurance and savings category will apply also to Family takaful business and the general Insurance category will also apply to general takaful, or will supplementary legislation be drafted to cover this special class of business ?



# Protection, Savings & Takaful

10 If the rules do cover Takaful business is it intended to modify the definitions contained within the rules to accommodate their application to Takaful? For example, the definition of “Insurance” refers to a transfer of risk whereas under Takaful there is a sharing of risk.



# Protection, Savings & Takaful

11 For Takaful business, providers already pay a Sharia fee. Would the supervisory fee be payable in addition to or instead of the Sharia fee, or does the supervisory fee only apply to non-Takaful business ?



# Protection, Savings & Takaful

12 Given the specialist nature of Takaful business and the limited number of Takaful Reinsurers, will SAMA consider that the most appropriate reinsurer for this business may be foreign and consent to reinsurance arrangements assuming these foreign reinsurers meet the SAMA requirements ?



Thank you

