Reinsurance in the Kingdom of Saudi Arabia

Impact of the New Regulations

Private Risk Solutions AG

Reinsurance in the KSA Market

- Reinsurance in General
  - The Basics
  - Prior to the Regulation
  - After the Regulation
- Operational and Technical Issues
- Philosophical Issues
- Closing Thoughts

Reinsurance In General

- The Basics
  - Increase Capacity – Excess of Loss or Surplus
    - Generally a company should only expose up to 10% of it's surplus on a per risk basis and;
    - Target of below 3:1 for written premium to policy holders surplus.
  - Provide Stability – Excess of Loss or Surplus
    - Reinsurance manages risks and Smoothes results. Limits maximum paid for any one loss or series of losses.

Reinsurance In General

- The Basics
  - Provide Catastrophe Protection – Excess of Loss
    - Limit exposure to Earthquake, Floods, Terrorism and other high severity, low frequency losses. Protect the Balance Sheet.
  - Surplus Relief – Quota Share
    - Assist companies to recoup Acquisition costs and helps timing of Premium Income;
      - Commissions are paid to offset the costs spread over the duration of an insurance policy.

Reinsurance In General

- The Basics
  - Enter New Lines of Business/Underwriting Expertise – Quota Share
    - Ability to reinsure exposure and protect the surplus of the company. Benefit from the experience of a third part
    - Ability to extend the „learning curve“

Reinsurance In General

- Prior to the New Regulation
  - Reinsurance was unsupervised, open and commercially driven;
    - Market forces (outside the Kingdom) dictated:
      - Coverages reinsured
      - Terms and Conditions
      - Capacity
      - Retentions
    - Reinsurance Could be purchased from any source from Rated or Non-Rated companies

Reinsurance In General

- After the the New Regulation
  - Reinsurance will be supervised, less open but must still be commercially driven;
  - SAMA Will have a Supervisory Role and will have various degrees of input regarding:
    - Retentions of the Primary Companies
    - Coverages Re-Insured and Possibly Structure of the Reinsurance Treaties
    - Reporting of Reinsurance Arrangements
    - Selection of Reinsurance Companies

Technical and Operational Issues

- Reporting
- Transition
  - Will Treaties be Canceled and affect on Prior Reinsurance Arrangements and/or New Reinsurance Arrangements?
- Retention and Reinsurance Components
- Co-Insurance vs. Reinsurance

Technical and Operational Issues

- Reporting
  - Clearly there will now be some form of Reporting;
    - Min. Licensing requirements of utilized Reinsurance Companies;
    - Record retention and documentation;
    - Net and Gross Premiums;
    - Approval of Reinsurance programs.

Technical and Operational Issues

- Transition
  - Cancellation of Treaties for Old Companies
  - New Treaties for New Companies
  - Who will handle old Claims?
    - Can Portfolios from Outside the Kingdom be serviced from Inside the Kingdom?
    - Will a Portfolio Transfer Be Allowed?

Technical and Operational Issues

- Retention and Reinsurance Components
  - 30% of All Premiums overall but:
    - Effect on High Severity Lines: Aviation, Energy with very low retention as opposed to
    - Effect on High Frequency Lines: Motor, Medical with very high retentions.
  - Proportional Capacity will follow Profits.

Technical and Operational Issues

- Retention and Reinsurance Components
  - Proportional Capacity will follow Profits
    - Motor, Medical will be difficult but needed for Surplus and Ratio requirements...
  - Excess of Loss will be available but at a price.
    - International Market will have continue to dictate final pricing and terms.

Technical and Operational Issues

- Retention and Reinsurance Components
  - Bouquet Approach has traditionally NOT included:
    - Medical
    - Aviation
    - Energy
    - Motor/Third Party Liability

Technical and Operational Issues

- Retention and Reinsurance Components
  - And the Bouquet Approach will continue to NOT include:
    - Medical, Aviation, Energy Motor/TPL.
  - Need to find specialist Reinsurance companies willing to provide capacity but this will most likely come from Outside the Kingdom.
    - This needs to be contemplated when deciding on which Lines of Business to write and how to Reinsure.

Technical and Operational Issues

- Retention and Reinsurance Components
  - Critical to have a Technically Designed and Professionally Managed Reinsurance Structure that contemplates new Regulations.
  - Mix of Treaty (Proportional + XOL) plus Facultative and possibly Finite solutions.

Technical and Operational Issues

- Retention and Reinsurance Components
  - Balance between Retained Premiums and Exposures...
    - Maximize Profits and;
      - Earn Contributions+Minimize Risk+Lower Loss Ratios
    - Manage Exposures

  = Financial Stability

Technical and Operational Issues

- Co-Insurance vs. Reinsurance
  - Co-Insurance is Risk Sharing and not apparently restricted.
    - Not subject to rate competition;
    - Several not Joint Liability.
  - Reinsurance is Risk Transfer and is restricted.
    - Keep in Mind Reinsurance „Spiral“ potential in the market due to in the Kingdom Reinsurance requirements.

Philosophical Issues

- Traditional Reinsurance
  - Commercial for profit
  - Pays Commissions
  - Available and Financially Secure
- Takaful Reinsurance
  - Cooperative
  - Pays Re-Takaful contributions
  - Not as available and not as Secure

Philosophical Issues

- Expiring Portfolios
  - Underwritten by Commercial Companies
  - Run-Off by Cooperative Takaful Companies
    - How is this Managed?
    - Can it be Managed?

Note that the Reinsurers may have some control of the Portfolios, not the Ceding Companies, if the company is in Run-Off and there are claims cooperation clauses in the treaties.

Philosophical Issues

- What are the Implications?
  - Run-Off
  - Cut-Off
  - Commutation
  - Takaful LPT
- The Reinsurers will consider how the run-off is managed for the New Treaties....

Closing Thoughts

- Understand the Implications of Reinsurance.
  - Reinsurance is a financial Tool;
  - It must be Managed
    - Both for the Shareholders and Policy Holders.
- Technical Advice is Critical!