

## **Exit Plan to be followed by unlicensed insurers working in the Kingdom of Saudi Arabia**

### **Introduction:**

All unlicensed insurers operating in the Kingdom under the Grace Period referred to under the Royal decree number (3120/MB) and dated **(4/3/1426 H)** must now carry out one of the following actions:

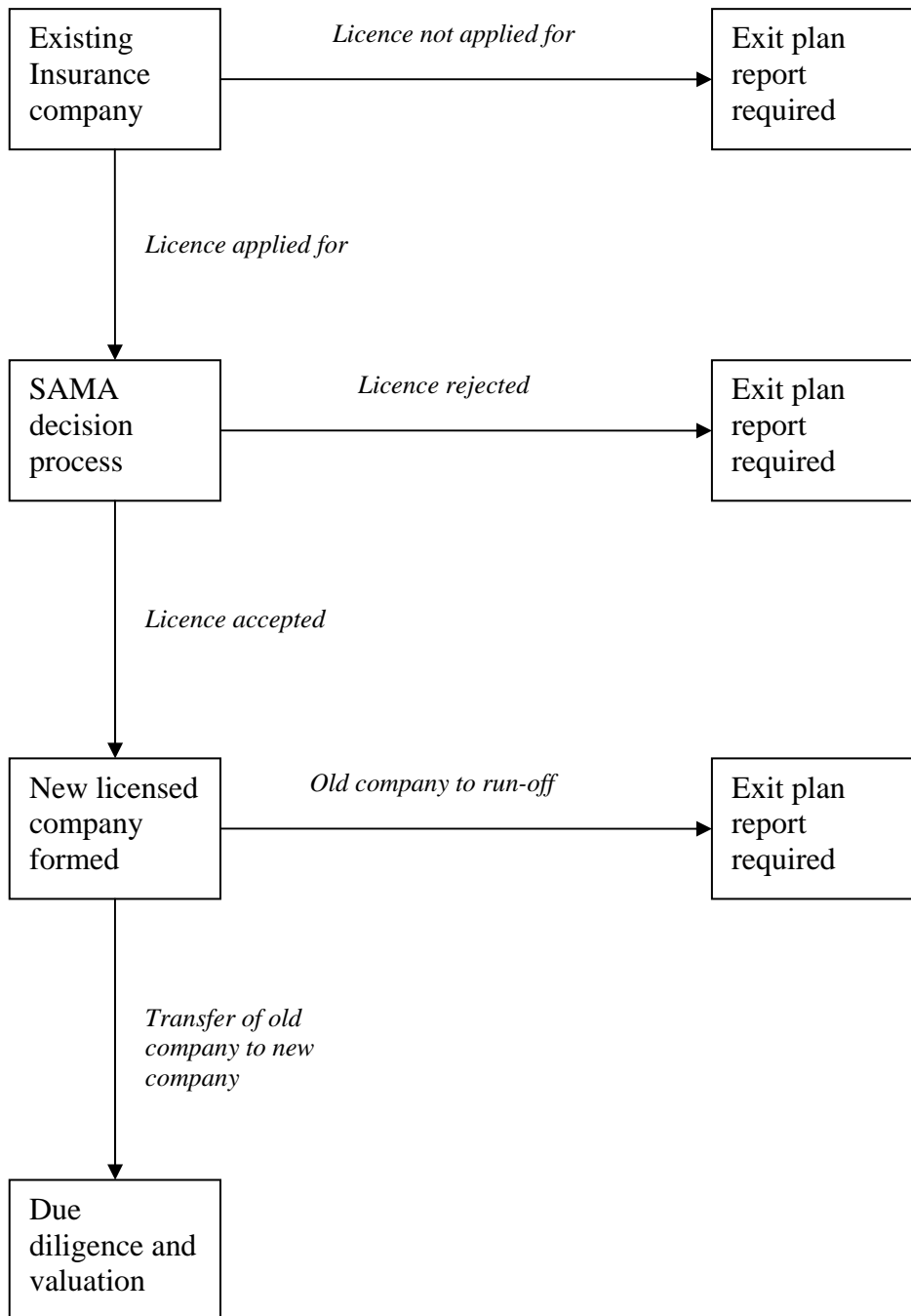
- > Transfer the existing business portfolio into licensed insurance company by **11 March 2008**; or
- > Submit an Exit Plan report to SAMA by **15 January 2008**, including those companies that are applying to establish a new Cooperative Joint Stock Company but who are not going to transfer in the existing business; or
- > Follow the Default Exit Plan set out below, including those companies that are applying to establish a new Cooperative Joint Stock Company but who are not going to transfer in the existing business.

It should be noted that, any insurance company that does not comply with the above must stop underwriting new business by **15 January 2008**.

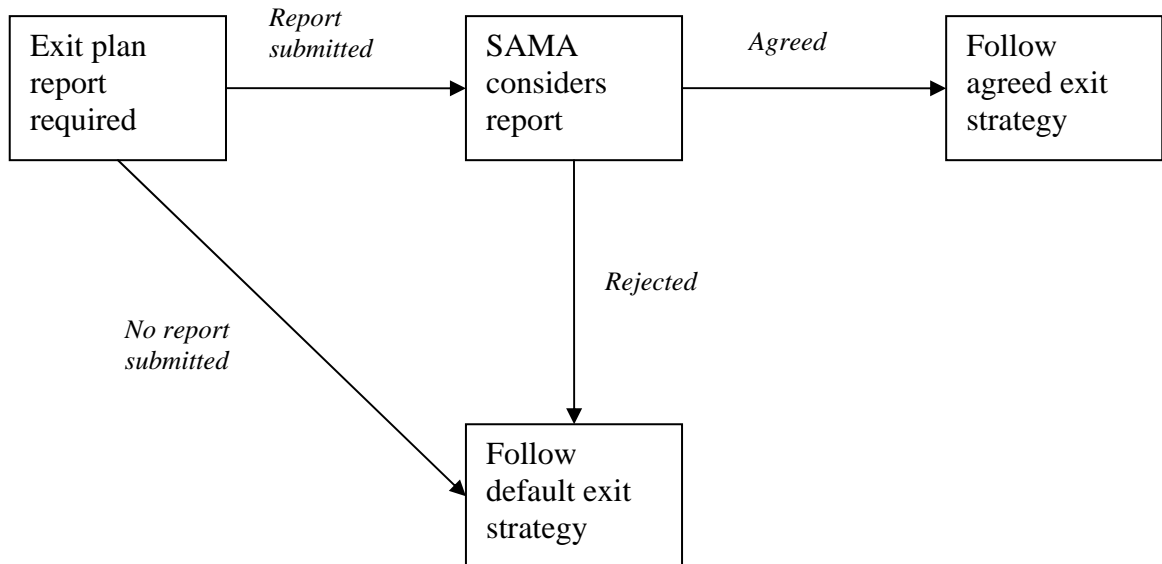
Any company which submits an Exit Plan document that does not comply with SAMA's requirements as set out below will also be required to follow the Default Exit Plan. SAMA will identify to such companies, in a specified time period, that their report does not meet the desired requirements.

The different circumstances and actions that must be taken are set out in diagrams as follows:

### Plan process 1



## Exit plan process 2



### Exit Plan Report to SAMA

An Exit Plan report submitted to SAMA must contain comments on the following:

- > Detailed information on all in force insurance liabilities must be provided up to date. This should include the following as a minimum:
  - Details of policies in force in each insurance class, including the registry of policyholder's names and contact information.
  - Gross and net written premium in each insurance class.
  - Gross and net sum insured in force in each class of insurance.
  - Gross and Net outstanding claims reserves by class of insurance
  - Gross and Net unexpired premiums reserves by class of insurance
  - Individual policy data for any policy expiring after **15 January 2008**, including class of business, details of premiums payable and sums insured

- Full details of all facultative reinsurance acceptances and placements.
  - List of people (names, positions held, and roles) directly involved in the exit plan.
  - Assets (bank accounts, investments, etc.) used for claims payment and the name of the financial institutions they are held with inside or outside the Kingdom.
- > Subject to the next bullet point, the company must either cancel all in force policies and provide a pro-rata refund to clients at **3/3/1429 H** corresponding **11 March 2008** or provide SAMA with satisfactory guarantees of the run-off of the portfolio. Notice and refunds must be provided to insured clients by **31 January 2008**. These letters must not be sent until SAMA has approved them.
- > Any policies with outstanding term in excess of one year, in particular Engineering and long term Protection and Savings must not be cancelled as a pro-rata refund may not be sufficient to allow the cover to be replaced.
- Within the Engineering class, all Contractors All Risks (CAR) and Erection All Risks (EAR) contracts of duration in excess of one year should be transferred to a Saudi Arabian licensed insurer making full allowance for the incidence of claims over the period of the contract.
  - The treatment of in-force long term Protection & Savings business should be agreed with SAMA separately by each company by **15 January 2008**.
- > The following will be considered satisfactory guarantees of the run-off:
- A guarantee that all claims will be met by a “BBB” or better rated company, where the rating is based on full information and is provided by Standard & Poors or the equivalent from AM Best, Fitch or Moody’s.
  - A bank guarantee for
    - The higher of (50% of the gross claims reserves, including incurred but not reported claims) and the net claims reserves; **plus**

- The higher of (50% of the gross unexpired premium reserves) and the net unexpired premium reserves.
- Any outstanding liabilities may be transferred to a licensed Saudi Arabian insurer, with no goodwill, at which point the bank guarantee can be allowed to lapse. Any such transfer is subject to a formal Due Diligence report being submitted to, and approved by SAMA that adequately demonstrates that the assets to be transferred are likely to be, in the opinion of the independent auditors, sufficient and adequate to match the liabilities to be transferred.
- > Copies of all reinsurance treaties for 2005, 2006 and 2007 should be passed to SAMA. All proportional reinsurers will be requested to agree a cut-through clause in respect of outstanding claims as at **3/3/1429 H** corresponding **11 March 2008** so that they take direct responsibility for their share of the settlement of claims in the Kingdom.
- > A summary of any outstanding tax and zakat issues with the Department of Zakat and Income Tax.
- > A summary of any existing dispute between the company and other parties.

### **Default Exit Plan:**

Any company that does not submit an Exit Plan by the date specified above or otherwise does not agree its Exit Plan with SAMA must comply with the following:

- > By **31 January 2008** at the latest, the company must write to all policyholders stating that their policies will be cancelled on **3/3/1429 H** corresponding **11 March 2008** at the latest, and providing a refund to the policyholders with the letter of cancellation. The refund should be that part of the premium received that relates to the period for which cover will not be provided, calculated on a pro rata time basis. The letter must make clear that all valid claims that occur up to and including the date of cancellation will be met in full by the company.

- > For contracts with duration in excess of one year, particularly Engineering or long term Protection and Savings contracts, a pro-rata refund may not be appropriate, and may not allow the insured to replace the cover. These contracts should not be cancelled.
  - Within the Engineering class, all Contractors All Risks (CAR) and Erection All Risks (EAR) contracts of duration in excess of one year should be transferred to a Saudi Arabian licensed insurer making full allowance for the incidence of claims during the period of the contract.
  - The treatment of in-force long term Protection & Savings business should be agreed with SAMA separately by each company.
- > SAMA should be provided with full copies of all letters sent to insured clients to cancel insurance policies. These letters must not be sent until SAMA has approved them.
- > Council of Cooperative Health Insurance (CCHI) should be provided with full copies of all letters in respect of Health insurance policies that are being cancelled.
- > All policies in any class of business that is reinsured on an excess of loss basis only (where no proportional reinsurance is used) **must** be cancelled by **15 January 2008** unless the company can provide evidence that it has been able to renew its excess of loss cover until **11 March 2008**.
- > Full details of the auditors of the Insurance Company and all Saudi Arabian agents should be passed to SAMA.
- > Sufficient infrastructure to handle claims will need to be maintained as follows:
  - All medical expenses claims must be handled by a licensed Third Party Administrator (TPA)
  - A licensed Loss Adjustor should be appointed to handle all other claims.
  - Any disputed claims will be referred to the Disputes Committee. A full record must be maintained by the company for all disputed claims.

Finally, the following should be taken into consideration:

- > SAMA will request that the regulator of any Insurance Company, that does not submit an Exit Plan document by the dates specified above, or otherwise does not agree its Exit Plan with SAMA, immediately withdraws all authorisations to write insurance risks in Saudi Arabia.
- > Any individual who does not comply with the above requirements are likely to be regarded as not “Fit and Proper” to hold any senior post within a regulated insurance company in the Kingdom.