REGULATION OF REINSURANCE ACTIVITIES

اللائحة التنظيميّة لأعمال إعادة التأمين

October 2010
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Saudi Arabian Monetary Agency ("SAMA")
Reinsurance Regulation ("This Code")

Part 1: Introduction

Purpose

1. This Code presents the general principles and standards that should be met by insurance and reinsurance companies, including branches of foreign insurance and reinsurance companies, and insurance related service providers with regard to their reinsurance practices.

2. The objective of This Code is to promote high standards of reinsurance practices within the insurance industry in accordance with the best international practices.

3. This Code must be read in conjunction with the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations.

Definitions

4. The term "Companies" in This Code is intended to include: insurance and reinsurance companies and insurance related service providers including insurance and reinsurance brokerages. The rest of the terms used in This Code shall have the same meaning as per article one (1) of the Implementing Regulations.

5. The term "Related Company" in this code means: a company (or one of several companies that SAMA may consider to be acting in concert) holding a shareholding of 10% or more of the equity of the licensed insurer, or a company in which the licensed insurer (either alone or with other companies that SAMA may consider to be acting in concert) holds a
shareholding of 10% or more.

Scope

6. This Code applies to insurance and reinsurance companies, and insurance related service providers including insurance and reinsurance brokerages.

Compliance Measures

7. Companies must establish appropriate internal controls and procedures to ensure and monitor compliance with This Code, including the compliance of all contracted parties.

8. Companies must maintain adequate records to demonstrate compliance with This Code, including but not limited to, reinsurance strategy, reinsurance transaction records, scenario testing reports, and financial implications report.

Part 2: General Requirements

Reinsurance Strategy

9. The Boards of Directors of insurance and reinsurance companies must supervise the definition of the reinsurance strategy, to be approved, documented and implemented within 3 months of the company’s authorization.

10. The reinsurance strategy must be submitted to SAMA to obtain SAMA’s no objection on it. It must be updated at least annually and submitted to SAMA by April 30th each year.

11. The company’s reinsurance strategy should include:
   a) Statement of the per risk retention for each risk type on each product.
b) Statement of the per event retention for each risk type on each product.

c) Description of the treatment of known accumulations, where relevant, for each risk type on each product.

d) Description of the treatment of unknown accumulations, where relevant, for each risk type on each product.

For each product, a statement of whether the risk exposure will be protected by treaty reinsurance, facultative reinsurance, both, or neither should be made.

**Internal Control**

12. The reinsurance strategy must set a well-defined control structure to monitor the company's reinsurance arrangements and report its performance.

The monitor and review functions must, at minimum, cover the following:

a) The identification and recording of polices underwritten, to which reinsurance is attached.

b) The identification of dates when an obligation to pay reinsurance premium arises.

c) The identification of cases where a company has suffered from a loss under a policy against which a reinsurance recovery can be made.

d) The time management of payments to, and collection from, reinsurance counterparties.

e) The credit standing and capacity of reinsurance counterparties to meet obligations.

f) The concentration of reinsurance programs with reinsurance counterparties, which would create large exposure.

g) The impact of adverse trends in estimated insurance liabilities on reinsurance and implications for the company has suffered from a loss under a policy against which a reinsurance recovery can be made.

b) Statement of the per event retention for each risk type on each product.

c) Description of the treatment of known accumulations, where relevant, for each risk type on each product.

d) Description of the treatment of unknown accumulations, where relevant, for each risk type on each product.

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b) بيان نسبة الاحتفاظ لكل حدثة، وفقاً لكل نوع من المخاطر لكل منتج.

c) وصف كيفية التعامل مع التراكمات المعروفة لكل نوع من المخاطر يتحملها كل منتج، حتى كان ذلك مناسباً.

d) وصف كيفية التعامل مع التراكمات غير المعروفة لكل نوع من المخاطر يتحملها كل منتج، حتى كان ذلك مناسباً.

يجب إعداد بيان لكل منتج يوضح ما إذا كانت الحماية من المخاطر سوف تتم عن طريق إعادة التأمين الاحصائي أو إعادة التأمين الاختياري أو كلاً منهما أو من دون أي منهما.

**الرقابة الداخلية**

12. يجب أن تتضمن إستراتيجية إعادة التأمين هيكلًا رقابيًا معروفًا بشكل جيد لمراقبة ترتيبات إعادة التأمين لدى الشركة وتقييم تقرير عن أدائها.

ويجب أن تغطي مهام المراقبة والمراجعة كحد أدنى ما يلي:

أ) تحديد وتسجيل وثائق التأمين المكتب بها والمربطة بإعادة تأمين.

ب) تحديد التواريخ التي فيها التزام بدفع قسط إعادة التأمين.

ج) تحديد الحالات التي تحملت فيها الشركة خسارة بموجب وثائق تأمين يمكن أن تغطي عن طريق إعادة إعادة التأمين.

د) توقيت الدفعات لمعيدي التأمين والمتحصلات منهم.

ه) التصنيف الاحصائي والطاقية الاستعجالية لمعيدي التأمين وقدرتهم على الوفاء بالتزاماتهم.

و) تركز برنامج إعادة التأمين مع معيدي تأمين قد ينشأ عنه التعرض لمخاطر كبيرة.

ز) تأثير الاتجاهات السلبية في التزامات التأمين التقديرية في إعادة التأمين والآثار المرتبطة

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capacity of the insurer to meet its current/future policyholders' claims.

h) Follow up on the developments in these areas.

Reinsurance Treaties

13. Reinsurance treaties must be submitted to SAMA to obtain SAMA's no objection as per Article 18 of the Implementing Regulations.

The submission of copies to SAMA should be made within two months of the renewal date.

SAMA must be notified within 7 days in case of cancellation or termination of any reinsurance treaty for any reason.

Reinsurance Officer

14. The company must appoint a reinsurance officer. The reinsurance officer must be notified to the Board of Directors and to SAMA. The role of the reinsurance officer should not conflict or overlap with any other role within the company's organization.

The reinsurance officer shall be responsible for:

a) The updating of the reinsurance strategy.

b) The handling of the reinsurance registers required by the Implementing Regulations.

c) All facultative reinsurance ceded records, and submission of a quarterly report to the Board of Directors and to SAMA on the facultative reinsurance ceded.

d) Follow up on any developments regarding his role.

If, in any way the company does not comply with its written reinsurance
strategy, the reinsurance officer should report the compliance failure to the compliance officer, who in turn must inform the internal audit and the audit committee. All non-compliance must be notified to the Board of Directors and to SAMA.

If the company is licensed to write protection and savings insurance, it must appoint a separate reinsurance officer for this business as per Article 21 of the Implementing Regulations.

Reinsurance officers must possess adequate experience in reinsurance arrangements.

Product Approval

15. All products approved by SAMA are subject to satisfactory reinsurance arrangements being in place to protect the insurer and its policyholders. If, in the opinion of SAMA, the licensed insurer does not have adequate reinsurance protections in place, then product approvals granted may be withdrawn.

Part 3: Reinsurance Principles

Ratings

16. All local and foreign reinsurers used by the company must have any of the following minimum ratings:

a) A.M. Best Company: B+; or 

b) Fitch Ratings: BBB; or

c) Moody's Investors Service: Baa; or

d) Standard & Poor's Corporation: BBB

Accepted ratings should fall under the following criteria:

المواقعة على المنتجات

15. يُنطُر على جميع المنتجات التأمينية المُوافق عليها من المؤسسة وجود ترتيبات إعادة تأمين مقبولة لحماية شركة التأمين والمؤمن لهم. وإذا رأت المؤسسة أنه ليس لدى شركة التأمين الحماية الكافية عن طريق إعادة التأمين، فإنه يحق للمؤسسة سحب المواقعة على أي من منتجاتها.

الباب الثالث: مبادئ إعادة التأمين

tصنيفات

16. يجب أن تكون لدى شركات إعادة التأمين المحلية وال أجنبية التي تستخدمها شركة التأمين أي من التصنيفات التالية كحد أدنى:

أ) A.M. Best Company: B+; or

ب) Fitch Ratings: BBB; or

ج) Moody's Investor Service: Baa; or

d) (Standard & Poor's Corporation) BBB

ويجب أن تكون التصنيفات المقبولة ضمن المعايير الآتية:
a) The rating must be based on full information (i.e., ratings based on publicly available information only will not be accepted).

b) Written approval from SAMA must be obtained if the reinsurer is located in a country with a sovereign debt rating from Standard & Poor of less than "BBB" or an equivalent rating from one of the above listed rating companies, or a country that is not rated.

If the rating of an adopted reinsurer falls below the required rating, the insurance company using that reinsurer must notify SAMA immediately and take necessary actions to protect policyholders.

Insurance Policies

17. Policy terms and conditions on insurance policies provided by the licensed insurance company must be no wider than those on its relevant reinsurance arrangements. Any exclusion on the reinsurance treaties must be taken into account in the policy terms and conditions provided by the company. As per Article 41 of the Implementing Regulations, a report on any discrepancies must be submitted to SAMA within one month of the end of each quarter.

Financial Implications

18. The financial implications of the components of a reinsurance treaty noted below should be analyzed. A report on the implications should be submitted to the Board of Directors and to SAMA. This report should include:

a) Profit sharing mechanism or variable commissions.

b) Loss sharing mechanism.

c) Any caps on the reinsurers’ total exposure under the treaty.

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Webcast on underwriting system of the insurance companies and its implications on the financial results of these companies.
d) Any caps on the reinsurers' exposure to single events, incidents or claims causes.

e) Any swing rates where reinsurance premium are adjusted based on the results of the reinsurance.

f) The possible impacts of reinstatements or annual aggregates on excess of loss treaties.

19. No forms of finite reinsurance may be carried out.

20. Reinsurance must be of risk only. No investments held under protection & savings contracts may be reinsured.

Per Risk Retention

21. Per risk retentions should be set in line with generally accepted insurance principles.

The per risk retention for each product should be set taking into account:

a) The pricing expertise of the company.

b) The anticipated premium volumes.

c) Correlations with other insurance risks accepted.

d) Treatment of known and unknown accumulations.

e) Per event exposures.

The business model adopted by the licensed insurer may also affect the per risk retention selected. For instance, if greater profit sharing with policyholders is put in place, a lower per risk retention may be considered suitable.

The form of the reinsurance arrangement may affect the level of the retention. For instance, a per risk retention under a quota share arrangement may be higher than that under an excess of loss.

The expected volatility of the company’s
results under its business plan should be taken into account. If the company believes that there is a material chance that its loss ratio will fall outside its range of business plan results, then it should present a report setting out the expected range of results to its shareholders, Board of Directors, and SAMA.

**Per Event Retention and Scenario Testing**

22. For each risk on each approved product, the company should consider the impact of multiple claims arising from a single event. Per event retentions should be set for each risk type. The annual probability of the per event retention being exceeded should be set at one half of one percent.

The company must produce an annual scenario testing report for their Board of Directors and SAMA. These scenarios will be standardized and set by SAMA each year. If the company is not sufficiently resilient to the defined scenarios, it will be required to take appropriate actions to mitigate the risks faced.

If a company has a proportional reinsurance treaty in place that imposes limits on the protection provided in the event of a natural catastrophe, then the amount of risk accepted by the licensed insurer should be strictly limited. The company should make a proposal to SAMA showing how it will limit and control the risks accepted under the treaty. Further restrictions may be imposed by SAMA.

The scenarios to be tested will include, but will not necessarily be restricted to, the following:

a) An earthquake or flood affecting the Red Sea/Arabian Gulf.

b) A large scale terrorist attack, or war.

c) A widespread epidemic or pandemic.

** معدل الاحتفاظ المبني على الحدث واحتمال الحلقات المحتمل وقوعها**

22. على الشركة أن تأخذ في الاعتبار أثر المطالبات المتعددة الناشئة عن حدث واحد بالنسبة لكل خطر يتضمن كل منتج تحت المغطاة عليه. يجب تحديد معدل الاحتفاظ المبني على الحدث لكل نوع من المخاطر. وفيجب تحديد معدل الاحتفاظ السنوي الذي يتم تجاوزه لكل حدث بما يعادل 0.5%.

وعلى الشركة أن تقوم بتقريرًا سنوياً عن اختيار الحلقات المحتمل وقوعها إلى مجلس إدارةها إلى المؤسسة. وسيتم توجيه تلك الحلقات وتحديدها من المؤسسة كل سنة. وإذا لم تكن الشركة مرتةً بشكل كاف تجاوز تلك الحلقات المحددة فسيطل منها أخذ الإجراءات المناسبة لتفعيل المخاطر التي تواجهها.

وإذا كان لدى الشركة اتفاقية إعادة تأمين نسبة تفرض قيودًا على الحماية المقدمة في حالة الكوارث الطبيعية، فيجب أن يكون حجم المخاطر التي وافقت عليها شركة التأمين محدودًا جداً.

وعلى الشركة تقديم مقررات للمؤسسة بوضوح كيفية قيامها بالحد من السطوة على المخاطر المفتوحة بموجب الاتفاقية. وللمؤسسة فرض قيود إضافية.

وستشمل الحالات المختلفة التي سيتم اختيارها على سبيل المثال لا الحصر ما يلي:

أ) زلزال أو فيضان يؤثر في البحر الأحمر/الخليج العربي.

ب) هجوم إرهابي كبير أو حرب.

ج) وباء محلي أو عالمي.
d) A Hurricane in the Red Sea/Arabian Gulf.

e) Large drops in asset values particularly property and equities.

f) The impact of any severe unexpected change in currency exchange rates.

g) Motor accidents involving multiple fatalities.

h) Serious Transport accidents.

Placing of Facultative Reinsurance

23. It is anticipated that most reinsurance will be placed into treaties in line with best international practice.

Facultative reinsurance may be placed when the size of the risk exceeds the capacity of the company’s treaty, or where no treaty is in place.

The company should seek SAMA's no objection if it wishes to write a risk that exceeds the capacity of its relevant treaty by more than 3 times.

The company may use facultative reinsurance subject to the premium charged being fully compliant with Article 46 of the Implementing Regulations if it accepts a risk that cannot be placed in its proportional reinsurance treaty due to the premium rates not being acceptable to its treaty reinsurers. For all policies written in this basis it must then:

a) Produce a formal report setting out the pricing basis adopted, and showing that it is compliant with Article 46 of the Implementing Regulations.

b) Within one month of the end of each quarter, provide to the Board of Directors and SAMA full copies of all pricing reports for all risks that are not acceptable under the insurer’s proportional treaties.
A licensed broker may not approach the facultative reinsurance market either inside or outside the Kingdom without written instructions and agreement of commission levels with the primary insurer.

The insurer may only allow the same broker to be used to place the reinsurance as well as the primary insurance, if full commission disclosure is made to the client of all direct and reinsurance commissions earned. The company must obtain a copy of a statement signed by the client expressing full awareness of all commissions earned by the broker before proceeding to write the insurance.

If a broker wishes to place facultative reinsurance on a risk where it has placed the direct insurance then it must at minimum:

a) Document why it does not believe there is any conflict of interest.
b) Provide full commission disclosure to its client.
c) Justify the use of facultative reinsurance rather than coinsurance.

If a Broker wishes to place both Insurance and Reinsurance on the same risk, this introduces some conflict of interest that cannot be entirely avoided. The minimum Professional Indemnity cover required under Article 9 of the Implementing Regulations must be increased to SR 12 million for any broker that wishes to place both insurance and reinsurance on the same risk.

Risk Management and Other Reinsurance Processes

24. A reinsurance claims register in accordance with Article 71, section 3c) of the Implementing Regulations should be in place to ensure that reinsurance recoveries are identified and appropriately

ولم يجوز للوسيط الدخول في سوق إعادة التأمين الاختياري داخل المملكة أو خارجه دون الحصول على تعميمات خصية والاتفاق على مستويات العمولات مع شركة التأمين.

ويجوز لشركة التأمين استخدام الوسيط نفسه للقيام بإعادة التأمين بالإضافة إلى التأمين المباشر إذا تم الأصدقاء بشكل كامل للعمل عن عمولات التأمين المباشر وعمولات إعادة التأمين التي سيتقاضاها.

وعلى الشركة الحصول على نسخة من الإقرار الموقع من العمل الذي يوضح اطلاع التام على جميع العمولات التي تقاضاها الوسيط قبل البدء في الإكتتاب.

وعلى الوسيط إذا رغب في القيام بإعادة تأمين اختياري على حضر قام بالتامين المباشر عليه التقيد كحد أدنى بالآتي:

أ) أن يوثق سبب اعتقده بعدم وجود تضارب في المصالح.
ب) تقديم إفصاح كامل عن العمولات لعميله.
ج) تبرير سبب استخدام إعادة التأمين الاختياري بدلاً من الاشتراك في التامين.

وإذا رغب الوسيط في القيام بالتأمين واعدة التأمين على المخاطر نفسها، فقد ينتج عن ذلك تضارب مصالح لا يمكن تجنبه بالكامل. يجب زيادة الهد الأدنى لتغطية أخطار المسؤولية المهنية عن التقصير والإهمال والخطأ بموجب المعايدا التامينية المنصوص عليها في اللائحة التنفيذية لتنظيم مراقبة شركات التأمين التعاوني إلى 12 مليون ريال سعودي لأي وسيط يرغب في القيام بالتأمين وإعادة التأمين على المخاطر نفسها.

إدارة المخاطر وعمليات إعادة التأمين الأخرى

24. يجب توافر سجل لتعويضات حصة معيدي التأمين من المطالبات بموجب أحكام المادة 71 الفقرة 3 من اللائحة التنفيذية لتنظيم مراقبة شركات التأمين التعاوني لضمان تقديم تعويضات إعادة التأمين وتسجيلها بشكل ملائم وواقت مناسب.

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recorded on a timely basis.

A reinsurance documentation register must be maintained in accordance with Article 71 item 3a) of the Implementing Regulations. This should include reinsurance agreements given the following:

a) The period for each agreement and the changes made thereto shall be stated separately with the capacity and type of each agreement.

b) The names and ceded percentage or amount for each reinsurer and the company’s retention percentage or amount for each class of insurance.

c) Summary of all reinsurance agreements and other particulars deemed necessary by the company.

A reinsurance account register shall be maintained in accordance with Article 71 section 3b) of the Implementing Regulations. It should contain all ceding statements to reinsurers.

Procedures should be in place to allow management to evaluate and monitor the application (and hence the effect) of the reinsurance program to the gross provision for claims outstanding (including claims incurred but not reported).

Appropriate systems should be in place to evaluate and monitor the company’s credit risk exposure to individual reinsurers.

Management should update the provision for reinsurance bad and doubtful debts on a regular basis in accordance with Article 69 of the Implementing Regulations.

Further detailed recommendations on risk management and governance and their interrelationship with reinsurance will be issued in separate regulatory guidance notes.

Accounting for Reinsurance

25. All proportional reinsurance premiums must be accounted in line with the


حسابات إعادة التأمين

25. تتم المحاسبة عن جميع أقساط إعادة التأمين النسبي بشكل متوازي مع أقساط التأمين المباشر.
corresponding direct insurance premiums.

All fixed proportional reinsurance commissions must be earned in line with the corresponding reinsurance premiums.

Any variable reinsurance commissions, or other profit sharing mechanisms, on proportional treaties should be accrued during the year taking into account the expected gross results, allowing fully for claims reserves including IBNRs.

Any reinsurance treaties which include “swing rates”, where the reinsurance premium is adjusted based on the experience under the treaty, should accrue the reinsurance premium based on the expected ultimate results allowing fully for claims reserves including IBNRs.

Acceptance of Reinsurance by a Licensed Reinsurer

26. A company accepting a facultative reinsurance risk should, at minimum, ensure that:

a) It is authorized by SAMA to write inwards reinsurance.

b) Where the original product being reinsured is written in Saudi Arabia, that product has been approved by SAMA for sale in Saudi Arabia.

c) It is approved to write similar products by SAMA, unless it is licensed to accept reinsurance risks only.

d) It is able to place the risk accepted within its own reinsurance treaties if its retention is exceeded.

e) Any catastrophe protections on its net retention will cover the risk accepted.

f) It has some mechanism in place to protect it from any claims excluded under its treaty if any exclusions on its treaty are not present in the terms and conditions of the treaty.

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f) It has some mechanism in place to protect it from any claims excluded under its treaty if any exclusions on its treaty are not present in the terms and conditions of the treaty.
conditions of the original policy that is to be reinsured.

g) For any risks from outside Saudi Arabia, where the risk is not written by a related company, the reinsurer must have an explicit no objection from SAMA to accept risks from that country.

h) For any risks which are written by a related company, full details of the original insurance and the facultative reinsurance must be referred to SAMA for individual no objection.

27. Treaty reinsurance could be written if the authorization granted to the company by SAMA includes writing reinsurance only.

Non-Compliance

28. Non-compliance with the requirements set forth in This Code will be deemed a breach of the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations and licensing conditions and will subject companies to enforcement action.

27. عدم الالتزام

28. يعد عدم الالتزام بالمتطلبات المنصوص عليها في هذه اللائحة مخالفة لنظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية وشروط التصريح، ويُعرض الشركة للعقوبات النظامية.