

Saudi Arabian Monetary Agency

Head Office

General Department of Insurance Control

التاريخ: ١٤٣٧/٠٩/١٦ هـ

الموافق: ٢٠١٦/٠٦/٢١ م

Circular

الرقم: ت.ع.م/٨٩/٢٠١٦٠٦

المرفقات: جدول اكسل عدد ٢

Mr.

The Company's Name

Subject: Engineering Insurance 2016

Dear Mr.

SAMA issued the Circular: Underwriting Practices 2015 Update on 25/5/1435.

It was stated in that Circular that SAMA would proceed to issue instructions for engineering insurance in Saudi Arabia.

This Circular contains SAMA's instructions for the handling of all policies classified as Engineering in Saudi Arabia.

Detailed instructions are contained in the protected Excel spreadsheets that are included with this Circular entitled:

- a) "SAMA Instructions for Engineering Insurance – 2016 protected"
- b) Annex One – SAMA Guidance on Extensions to Engineering Products – 2016 protected"

SAMA will issue further instructions later regarding Government Projects.

Issuing these instructions is intended to be the first step SAMA will take in establishing a more orderly market in Saudi Arabia for Engineering Insurance.

It is important for the long-term development of the market that insurance companies act as risk takers, and not as intermediaries for the international reinsurance market.

SAMA regards it as essential that the industry puts in place better controls and reinsurance to protect itself against catastrophic risks.

In addition, SAMA is seeking to raise technical standards within the insurance industry, and has identified property/engineering underwriters and risk engineers as key areas that need to be developed.

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No insurance company shall ever provide a quotation without having adequate underwriting information, including claims experience, on which to scientifically determine the premium rates appropriate for the policy terms and conditions offered. It should be noted that this applies to all insurance policies of all classes.

1. Contents of Detailed Instructions

1.1 Instructions

The main detailed instructions spreadsheet contains the following sheets:

- **Engineering Instructions** – This sets out the basic instructions applicable to all Engineering products.
- **Engineering – CAR and EAR** – This sets out instructions specific to Construction All Risks (CAR) and Erection All Risks (EAR) products.
- **Survey Reports** – This specifies points that must be included in Survey Reports and when they are required.
- **Project Management** – This includes instructions on the collection of information relating to the management of the project.
- **Deductibles – CAR and EAR** – This sets minimum and maximum deductibles to be applied to CAR and EAR products written in Saudi Arabia.
- **Deductibles – Other Products** – This sets minimum and maximum deductibles to be applied to all other Engineering products written in Saudi Arabia, where appropriate.
- **Third Party Liability** – These instructions apply to Third Party Liability cover, whether written as an extension to CAR/EAR products, or written as a stand-alone policy.
- **Contractors Pollution Liability** – specific instructions for this product.
- **Advance Loss of Profits** – specific instructions for this product.
- **CECR** – specific instructions for Civil Engineering Completed Risks products.
- **Comprehensive Project** – specific instructions for this product.
- **Inherent Defect** – specific instructions for this product.
- **Contractors Plant & Equipment** – specific instructions for this product.
- **Machinery Breakdown** - specific instructions for this product.
- **Machinery Loss of Profits** – specific instructions for this product.
- **Boiler & Pressure Vessel** - specific instructions for this product.
- **Deterioration of Stock** – specific instructions for this product.

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- **Electronic Equipment** - specific instructions for this product.
- **Cyber Risk** - specific instructions for this product.
- **Glossary** – This contains definitions of terms used in the detailed instructions.

These instructions apply to engineering products issued by Saudi licensed insurance companies.

1.2. Extensions to Engineering Products

This Spreadsheet contains a list of product extensions for which SAMA recommends that an explicit charge is made and identified in a company's systems.

This is non-mandatory guidance, but is considered best practice.

1.3 Governmental Projects

The Instructions for Insurance on Governmental Engineering Projects will be issued separately.

These instructions will be in addition to those included in the Circular.

2. The Underwriting Manual

2.1 Submission to SAMA

The Company must submit an Underwriting Manual, rating structure and premium rates, to SAMA by 1 September 2016.

The rating structure and premium rates must be in Excel spreadsheet format.

2.2 Contents of the Underwriting Manual

Underwriting Manuals must contain sufficient information so that an external party can follow any quotation produced by an Insurance Company for a risk in that Class of Insurance.

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Underwriting Manuals must:

- be comprehensive and cover all risks
- be clear and user-friendly
- fully describe the quotation process
- include the Underwriting Authority Statement, fully described
- be consistent with reinsurance arrangements

The Underwriting Manual shall be signed off by the Chief Underwriter or Chief Technical Officer for the Class of Insurance, as designated by the Company.

The Risk Manager shall also sign off the Underwriting Manual (including the Underwriting Authority Statement) from the process perspective.

It should be noted that the Company is fully responsible for the accuracy, clarity and comprehensiveness of the Underwriting Manual.

SAMA requires that companies commit to translating their Underwriting Manual and Underwriting Authority Statement into Arabic by 31 December 2018. The extended timetable granted for this is in order to ensure that the English documents are of a high standard before they are translated.

3. Compliance

A copy of this Circular must be passed to the Company's Board of Directors, Audit Committee, Internal Auditors, Risk Management officers, Compliance Officer, Responsible Actuary and External Auditors.

4. Regulatory Action for Non Compliance

It should be noted that if an insurance company, broker, insurance agent or insurance claims settlement specialist (third party administrator) is not in compliance with this Circular, SAMA will take regulatory/legal actions as stipulated in the Law on Supervision of Co-operative Insurance Companies and its Implementing Regulations.

Any reinsurance company not licensed by SAMA should note that non-compliance with these instructions will be taken into account when SAMA

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introduces explicit requirements for reinsurers to be authorised to operate in Saudi Arabia

Thus, SAMA instructs the Insurance Company to do the following:

1. Provide SAMA with their Underwriting Manual, rating structure and premiums. These must be provided by 1 September 2016.
2. Immediately provide the Insurance Company's employees who are in charge of underwriting with a copy of this Circular.
3. The requirements set out in this Circular will be effective from 1 September 2016 unless other dates are explicitly stated in the detailed instructions.
4. Provide confirmation from the Insurance Company's CEO/GM within seven days of the date of this Circular of adherence to the instructions stated in this Circular.
5. Copies of this Circular must be provided to the full Board of Directors of the Company. Minutes of the Board meeting on the adherence to the requirements set out in this Circular must be provided to SAMA within 90 days of the date of this Circular.

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Yours sincerely,

Tareq A. Alsdhan
Deputy Governor for Supervision

To:

- Insurance Companies
- Insurance Brokers
- Insurance Agents
- Insurance Claims Settlement Specialist (Loss Adjustors)
- Actuaries