

Saudi cooperative insurance market – the Premier League of insurance?



By Peter Hodgins and Matthew Owen

In the way the Premier League leads world football, the Saudi cooperative market dominates global Islamic insurance. With the hotly anticipated 2012/13 Premier League season shaping up to rival last year's excitement and controversy, the 2012/13 'season' for the Saudi Arabian cooperative insurance market could be equally eventful. Continuing last year's surprises, we anticipate an ongoing focus on the role of the 'referee', the insurance regulator (the Saudi Arabian Monetary Agency), the new 'rules of the game', through recently introduced regulations, as well as the financial health of market players.

The Premier League of Takaful: According to Ernst & Young's World Takaful Report 2012, global takaful premiums increased by 19 percent in 2010, totalling US\$8.3 billion. The GCC accounted for US\$5.6 billion; Saudi Arabia's market representing US\$4.3 billion of this (51 percent of global contributions).

The Kingdom is the only Islamic country to not have a conventional insurance market. Since 2004, insurance companies have been obligated to operate in accordance with the cooperative model, which differs from Takaful models used elsewhere in the world. However many companies in the Kingdom nevertheless operate in accordance with the Takaful model.

Goal Line Technology: The rules of modern football were invented in 1863, developing steadily in the last 150 years – lately through the introduction of goal line technology. Regulatory developments have similarly been a hallmark of the Saudi Arabian market of late, including the introduction of: *The Online Insurance Activities Regulation*, which presents insurers with a series of regulatory obligations and reporting requirements for transacting online business; *The Investment Regulation*, which stipulates requirements as to companies' investment policies, information to be disclosed to SAMA regarding internal investment authorities, and procedures for the monitoring and controlling of investment risks; and *Anti-money Laundering & Combating Terrorism Financing Rules*, which set out requirements (intended to align with the Financial Action Task Force's recommenda-

tions), obligating cooperatives to comply with certain 'know-your-client' and due diligence procedures, as well as related training.

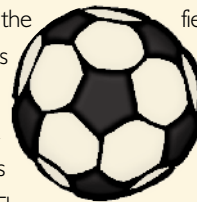
Forthcoming regulations: Further regulations are anticipated this year, with three draft regulations currently in circulation – the Actuarial Work Regulation, the Audit Committee Regulation and the Outsourcing Regulation.

The Referee: Unlike Premier League officials, SAMA and its linesmen – the Capital Markets Authority and the Council for Cooperative Health Insurance – have avoided criticism, proactively overseeing the Kingdom's cooperative insurance market and introducing new regulations. However, an immediate concern for SAMA is likely to be how to deal with the volume of information the industry must now submit to it for review or approval under the new regulations.

The Players: Premier League teams thrive on the quality of their players. However, Saudi Arabia continues to face a shortage of qualified insurance practitioners. As with football clubs' investments in their youth squads, companies must assess how much to invest in training their staff, particularly considering the risk of poaching by competitors with deeper pockets.

The Financial Health of the League: Stricter regulations and broader economic recession will likely mean a slowdown in the number of companies seeking to set-up and be licensed in the Kingdom, although companies already in the Kingdom will keep competition fierce. Factors such as sub-optimal scale, aggressive pricing strategies, over-focus on motor and health risks, and inability to retain risk, will continue to affect profitability; exacerbated as companies seek to recoup their set-up costs.

The 'television' money: Much as the Premier League's status results from the influx of cash from the sale of television rights, growth of the cooperative insurance market is heavily dependent upon the availability of reinsurance. However, Saudi Re aside, there is a lack of dedicated reinsurance capacity within the Kingdom itself, compounded by mandatory retentions under the Reinsurance Regulations. The development of regional reinsurance (and retakaful) will hopefully assist in further developing the Saudi market.



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