SAUDI ARABIA

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# Key features of the mandatory liability insurance regime in Saudi Arabia

**By Mark Beswetherick and Saud Alsaab**

Saudi Arabia recently passed a new law requiring certain types of business to put in place third party liability insurance. The law came into force on February 21st, 2014. This is a positive development not only for the insurance industry in the Kingdom, but also in ensuring that adequate protection is in place to protect workers and the public when major incidents occur. The new mandatory regime will be enforced through civil authorities and the licensing regime to ensure that all businesses to whom the requirements apply take the necessary steps.

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**Key features**

Some of the key features of the new law include:

- The General Directorate of Civil Defence (CD) will have final discretion over which businesses the new law will apply to. Nonetheless, it appears clear that it will apply not only to high risk plants, factories and manufacturing operations, but also to residential facilities.
- The new law applies to both private and governmental businesses.
- The CD will issue further guidance on the exact scope and practical application of the new law in due course.
- The CD will be able to ensure the law is complied with by enforcing the requirements as part of its licensing functions, i.e. businesses that do not comply will not be able to renew their licences.
- The cover provided will necessarily be written on a cooperative insurance basis and will have to be pre-approved by the Saudi Arabian Monetary Agency, as the regulator of the insurance market in Saudi Arabia.
- It is also clear that in future all tenders by businesses looking to manage such plants and facilities to which the law applies will need to specify that the tenderer has arranged (compliant) insurance packages to meet the new CD requirements.

Although there are no clear statistics available on the current take up of this type of cover, it is well known that the penetration rate for this class of business is not as high as other comparable jurisdictions. Therefore, the enactment of this law is itself a recognition that market factors alone have not been enough to provide necessary protections for the public and that the government must intervene and mandate these requirements in order to ensure that appropriate insurance is being taken out by high risk facilities.

**Positive impact**

While some of the interesting detail still remains to be settled by the CD, this law will have a positive impact for the insurance market and economy in general by recognising the importance of third party liability cover and spurring demand for more specialist products designed for the local marketplace. The change will also see improvements in the approach to risk management and health and safety in those facilities as companies seeking insurance are forced to address the requirements that insurers will impose to raise the security levels of those facilities, including regular testing, surveys and health and safety standards before the inception of a policy.

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