

Instructions No. (4) of 2002
Reinsurance Instructions and the Amendments Thereof *
Issued by the Board of Directors of the Insurance Commission pursuant to
paragraph (C) of Article (23) of the Insurance Regulatory Act No. (33) of 1999

Article (1):

These Instructions shall be known as the (Reinsurance Instructions of 2002), which shall come into force as of 1/1/2003 and shall be published in the Official Gazette.

Article (2):**

- A- The words and phrases, wherever mentioned in these Instructions shall have the meanings ascribed thereto under Article (2) of the Insurance Regulatory Act No. (33) of 1999, unless otherwise indicated by context.
- B- For purposes of these Instructions, the treaty and/or facultative reinsurer shall mean the insurance company and/or the reinsurance company that conducts reinsurance business to the risk ceded from the insurance company.

Article (3):

- A- The Board of Directors of the Company shall adopt a reinsurance policy as an integral part of the underwriting policy of the Company in the licensed classes of insurance, to enable the Company to meet its obligations, provided that such policy complies with provisions of the Act, Regulations, and Instructions issued by virtue thereof, and provided it includes the following:-
 - 1- Types of reinsurance which the Company needs to protect the business the Company is licensed to transact, treaty or facultative, whether ceded locally or externally.
 - 2- The manner of selecting reinsurers, facultative and/or treaty, including means of evaluating the ability of reinsurers to fulfill their contractual obligations and the collaterals requested from each of them.
 - 3- The manner of direct ceding to reinsurers and/or ceding through reinsurance brokers and the manner of selecting them.
 - 4- Limits set for reinsurance programs related to net retention per risk and the maximum foreseeable amount for reinsurers covers.
 - 5- Procedures, basis and criteria used to estimate the maximum probable loss per risk.
 - 6- Procedures of monitoring the implementation of the reinsurance programs in the Company.
 - 7- Determining the managerial and financial authorities and responsibilities in the Company to execute the reinsurance programs.

* These Instructions were published in the Official Gazette volume (4581) dated 16/1/2003 page (235), and have been amended according to Instructions No. (4) of 2003 Instructions Amending the Reinsurance Instructions No. (4) of 2002 published in the Official Gazette volume (4632) dated 16/11/2003 page (6357).

** This Article has been amended according to Article (2) of the Instructions Amending the Reinsurance Instructions of 2003.

- 8- Plans for liquidity management in the case of mismatching between the payment of claims and the receipt of reinsurance recoveries.
- B- The Board of Directors of the Company shall review the policy annually or during the year if need arises.
- C- The Company shall provide the Director General annually with a copy of the reinsurance policy and with any changes or modifications that occur during the year.

Article (4):

In implementation of the reinsurance policy the Company shall determine the following:-

- A- Underwriting guidelines according to the insurance classes the Company is licensed in, that includes the terms and conditions of the Insurance Policies issued, and the limits of the aggregate risks the Company is willing to underwrite for each class of insurance classes.
- B- Reinsurance cover limits for each class of insurance the Company is licensed in subject to the treaty reinsurance programs.
- C- Facultative reinsurance arrangements basis.
- D- Net retention limits of the Company per risk or per event or both on the basis of underwritten class of insurance and/or on the basis of all underwritten business.
- E- The limit of liability of the Company based upon an evaluation of the risk profile and the cost of reinsurance considering the capital available.

Article (5):*

- A- The total reinsurance ceded for the treaty and/or facultative reinsurer according to the credit rating mentioned in the Solvency Margin Instructions in force and the Decisions issued by virtue thereof for all or any of the insurance companies for each of the insurance contracts within the first three years of the date these Instructions come to force shall be as follows:-
- 1- (75%) at least for Group One and Two.
 - 2- (25%) at most of Group Three and Four.
- B- The Company shall comply three years following the date the provisions of these decisions are in force with the following :-
- 1- The total reinsurance ceded for the treaty and/or facultative reinsurer according to the credit rating mentioned in the Solvency Margin Instructions in force and the Decisions issued by virtue thereof for each of the insurance contracts (100%) for Group One and Two.
 - 2- The Director General may approve on transacting business with facultative and/or treaty reinsurers rated within Groups Three and Four pursuant to basis and requirements that will be specified for this purpose including the ceding percentage permitted.
- C- In all cases the Company shall retain the following:-
- 1- An amount equal to (30%) of the premiums reinsured for the treaty reinsurer.

* This Article has been amended according to Article (3) of the Instructions Amending the Reinsurance Instructions of 2003.

- 2- An amount equal to (30%) of the premiums reinsured for the facultative reinsurer rated within Groups Three or Four.
Provided that that amount shall be released after one year as of the date it was retained.

Article (6):*

The Company shall insure that reinsurers from Group Three and Four the Company wants to transact business with shall meet the Solvency Margin ratio according to Solvency Margin Instructions applied in the Kingdom. The Company shall acquire from these reinsurers the following information:-

- A- A copy of the license to transact insurance and/or reinsurance business in the mother country, certified by the governmental supervision and control authorities and any amendment or modification on the license.
- B- A copy of the profile of the reinsurer, its organization, activities and the markets transacting business therein.
- C- A copy of the last annual report of the reinsurer including the audited financial statements.

Article (7):**

- A- The Company may transact with any fund and/or pool pursuant to the provisions of Articles (5) and (6) of these Instructions, as the case may be.
- B- The Company may transact business with an insurance fund and/or pool rated within Groups Three and Four exceeding percentages stipulated in Article (5) of these Instructions according to standards and requirements specified for this purpose, provided that the Director General is provided with the following for the purpose of obtaining a prior approval to transact business:-
 - 1- The nature of business for the fund and/or the pool.
 - 2- The signed agreements between the fund and/or the pool and the insurance companies participating within.
 - 3- The reinsurance agreements for the fund and/or the pool.
 - 4- The financial status for the fund and /or the pool, as the case may be.

Article (8):

- A- Notwithstanding what is stated in Article (5) of these Instructions, the company that accepts a share of reinsurance from another company shall comply with the following provisions:-
 - 1- To retain a percentage of that share, provided that the retaining level shall not exceed the level that the company accepts for similar risks.
 - 2- To reinsure the share that it does not retain with a treaty reinsurer and that share may be facultative reinsured or partly reinsured at the prior approval by the insurance company that the share was ceded to.
 - 3- It shall not retrocede to another company.

* This Article has been amended according to Article (4) of the Instructions Amending the Reinsurance Instructions of 2003.

** Articles (7) and (8) have been added according to Article (5) of the Instructions Amending the Reinsurance Instructions of 2003.

- B- The reinsurance premiums coming for the company from the Kingdom or abroad shall not exceed (25%) of the gross written premiums for the company as it is in the last annual financial statements issued, in all cases.

Article (9):*

The Company shall provide the Commission annually with the following regarding the treaty reinsurance programs:-

- A- An intention letter issued by the reinsurers including the reinsurers wills to transact business with the Company and the conditions of this transaction with at least fifteen days before the end of the financial year. The Company shall not issue any Insurance Policy that falls under the type and class of insurance to be included in the intention letter as of the beginning of the next financial year except after providing the Commission with the intention letter.
- B- A copy of the reinsurance cover notes within a period not exceeding thirty days as of the beginning of the financial year.
- C- A copy of the reinsurance contracts from the reinsurers, when available.

Article (10):

The Board of Directors of the Company shall adopt an effective internal control system to ensure that the reinsurance programs are applied, and as follows:-

- A- Provide the Board of Directors of the Company with periodical reports clarifying the efficiency of the cover and remuneration system provided by the reinsurance programs adopted by the Company including all information in respect of underwriting and reinsurance.
- B- That the reinsurance programs applied are according to the reinsurance policy as approved by the Board of Directors of the Company, and that these programs satisfy the underwriting requirements.
- C- Document the underwritten Insurance Policies, the reinsurers related thereto and the ceded percentage related to each one of them.
- D- Determine the reinsurance premiums due dates.
- E- That the concerned reinsurers are informed of their share of the claims and insure that payments are being promptly collected.

Article (11):

The Auditor shall submit a certificate to the Commission, attached with the closing financial statement of the Company, including the extent of the consistency of the reinsurance programs taken by the Company with the provisions of these Instructions, the provisions of Insurance Regulation Act, the Instructions and Decisions issued by virtue thereof.

* Articles (7-12) of the original Instructions have been renumbered to become Articles (9-14) respectively, according to Article (5) of the Instructions Amending the Reinsurance Instructions of 2003, and Article (7) of the original Instructions has been amended according to Article (6) of the Instructions Amending the Reinsurance Instructions of 2003.

Article (12):*

- A- The Company that offers to sell the insurance services it is licensed to transact, or wishes to enter in any of the bids to purchase insurance services therefrom, has to comply with the following:-
- 1- Complete all reinsurance programs according to the provisions of these Instructions, and obtain the reinsurers preliminary, prior and written approval on the offers made to sell insurance services or on the conditions of any bid.
 - 2- Statement of the details of the reinsurance programs stipulated in Item (1) of paragraph (A) of this Article and any other conditions set by the reinsurers participating in the reinsurance programs that may influence the decision of referring the purchase of insurance services to the Company whether through sale offers or bids except for what is stipulated in paragraph (B) of this Article.
- B- If the Company decided to cede over (30%) of the insurance contract on the facultative reinsurance arrangements, the Company has to complete at least (60%) of the reinsurance ceded provided it includes a rated leader from Group Two as a minimum according to the Solvency Margin Instructions in force and the Decisions issued by virtue thereof.

Article (13):

The conditions and provisions of the reinsurance programs, as adopted, between the Company and its reinsurers must comply with the conditions and provisions of the underwritten risks to insure that there are non-existent uncovered risks.

Article (14):

The treaty reinsurance programs shall start on the first of January and shall end on the thirty first of December of the year.

Article (15):**

The Director General may request from the Company to stop its transactions with the reinsurer, insurance fund or pool in any of the following cases:-

- A- If it was evident to him that the Company is not complying with the provisions of these Instructions.
- B- Where sufficient information is available indicating a stumbled financial situation for the reinsurer, insurance fund or pool.
- C- If the reinsurer, the insurance fund or the pool did not meet or fall behind in fulfilling his obligations or is unable to continue his business.
- D- If he was not provided with any of the required data or documents according to the provisions of these Instructions and the Decisions issued by virtue thereof.

* Article (10) of the original Instructions has been amended according to Article (7) of the Instructions Amending the Reinsurance Instructions of 2003.

** Articles (15) and (16) have been added according to Article (8) of the Instructions Amending the Reinsurance Instructions of 2003.

Article (16):

The reinsurer, insurance fund or pool shall submit any data or information requested by the Director General or his delegate from the staff of the Commission within the period he specifies for this purpose.

Article (17):*

The Company shall adjust its status according to the provisions of these Instructions as follows:-

- A- Within a period not exceeding three months as of the date these Instructions are in force for facultative reinsurance agreements.
- B- 1- As of the date these Instructions are into force for the treaty reinsurance programs conducted in 2003 and ends in 2004.
 - 2- As of the beginning of the fiscal year of 2004 for the treaty reinsurance programs notwithstanding what is stipulated in item (1) of paragraph (B) of this Article.

Article (18):

The Director General shall issue the Decisions necessary for implementing the provisions of these Instructions.

Board of Directors of the Insurance Commission

* Articles (13) and (12) of the original Instructions have been renumbered to become Articles (17) and (18) respectively, according to Article (8) of the Instructions Amending the Reinsurance Instructions of 2003