

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 priority in dealing with reinsurer licensed by the Commission to transact the business of reinsurance pursuant to the provisions of the Act, Regulations, Instructions and Decisions issued by virtue of any of them.
 - 4- The manner of direct ceding to reinsurers and/or ceding through reinsurance brokers and the manner of selecting them with the priority in dealing with a reinsurance broker licensed by the Commission according to Instructions of Licensing and Regulating the Business and Responsibilities of a Reinsurance Broker in force.
 - 5- Limits set for reinsurance programs related to net retention per risk and the maximum foreseeable amount for reinsurers covers.

* 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 Reinsurance Instructions No. (4) of 2002 published in the Official Gazette volume (4632) dated 16/11/2003 page (6357) and Instructions No. (10) of 2009 Instructions amending Reinsurance Instructions published in the Official Gazette volume (5006) dated 31/12/2009 page (7363) .

- 6- Procedures, basis and criteria used to estimate the maximum probable loss per risk.
- 7- Procedures of monitoring the implementation of the reinsurance programs in the Company.
- 8- Determining the managerial and financial authorities and responsibilities in the Company to execute the reinsurance programs.
- 9- Plans for liquidity management in the case of mismatching between the payment of claims and the receipt of reinsurance recoveries.
- 10- Mechanism of dealing with cumulative risks for each insurance license.
- 11- Policy for specifying the maximum concentration limit allowed for a reinsurer in reinsurance programs.
- 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 company shall reinsure all insurance contracts with reinsurers rated within Groups One and Two according to the Bond Rating mentioned in the Guidelines for the Solvency Margin Instructions in force, provided that the company shall submit a proof that the reinsurer has an active Bond Rating and not just rating based on published data.
- B- The company shall retain the amount stated below, provided that the company shall release such amount after a year as of the date of retention:-
 - 1- An amount equivalent to (30%) from the treaty reinsurer share from reinsurance premiums.
 - 2- An amount equivalent to (15%) from the local treaty reinsurer share from reinsurance premiums.
- C- Notwithstanding what is mentioned in paragraph (A) of this Article, the Director General may, in specified cases, approve to the dealing with a treaty and/or facultative reinsurer rated within Groups Three and Four.

- D- For purposes of implementing the provisions of paragraph (A) of this Article, local insurance and reinsurance companies shall be considered as group one rated companies stated in the Guidelines for the Solvency Margin Instructions in force.

Article (6):

- A- The Company may transact with any fund and/or pool pursuant to the provisions of Article (5) of these Instructions.
- B- The Company may deal with an insurance fund and/or pool rated within Groups Three and Four according to Bond Rating mentioned in the Guidelines for the Solvency Margin Instructions in force, provided that the company is required to obtain the Director General's prior approval for such dealing and provide the Commission, for purposes of obtaining such approval, with the following:-
- 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- A copy of the last annual report for the fund or the pool including the audited financial data.

Article (7):

- A- In implementation of the provisions of the Act, the company may reinsure insurance contracts in any insurance class it transacts with another company licensed to transact that class of insurance, provided that such 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 reinsurer transacting the business of treaty reinsurance 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 insurance contracts accrued from insurance companies to another company.
- 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.
- C- The provisions of paragraph (B) of this Article shall not be applied to the premiums of reinsurance accrued to the company's branches outside the Kingdom.
- D- The ceded percentage to insurance companies outside the Kingdom shall not exceed the percentage determined by the Director General pursuant to a Decision issued by him for this purpose.

Article (8):

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 (9):

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.
- F- Specify the cases where the company has suffered a loss resulted from insurance policies that could be reduced through reinsurance arrangements, as a result of the company has retained all or a large share of risks that exceeded its ability or as a result the reinsurer has not paid his share for any reason.

Article (10):

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.

Article (11):

- 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.
- C- The company shall, in all cases, complete the reinsurance arrangements before the commencement date of the insurance policy.

Article (12):

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 (13):

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

Article (14):

The Director General may request from the Company to stop or limit the nature of 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 (15):

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 (16):

The company shall provide the Commission with an evidence of taking the necessary procedures that give the priority to deal with the reinsurer licensed by the Commission to transact the business of reinsurance and with a reinsurance broker licensed by the Commission pursuant to the provisions of items (3) and (4) of paragraph (A) of Article (3) of these Instructions.

Article (17):

The company shall ensure that its branches and the subsidiaries thereof licensed to transact insurance business outside the Kingdom implement the provisions of these Instructions and Decisions issued by virtue thereof as the minimum provisions to be complied with regarding reinsurance instructions.

Article (18):

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

Board of Directors of the Insurance Commission