



Saudi Arabian Monetary Agency

Principles to be applied to the regulation of branches of foreign insurance companies established in Saudi Arabia

This working document sets out the approach that will be applied to the regulation of branches of foreign insurance companies wishing to operate in Saudi Arabia. The overall approach that will be taken is that there should be a level playing field, between branches of foreign insurance companies and locally incorporated public joint stock companies. SAMA is requesting from interested foreign insurance companies who are seeking to operate as a branch in Saudi Arabia a **written** response/comments to this consultation document within 60 days of its publication on its website. The written response should be sent to SAMA and should be addressed to: Mr. Mohammad Al Shayea, Director of Banking Inspections, Insurance, and Financial Leasing.

1. New regulations that will amend the Implementing Regulations will be prepared. The new regulations and The Saudi Arabian Monetary Agency (SAMA) circulars will have the effect of implementing the approach that Saudi Arabia will apply to branches of foreign insurance companies that is set out in this document and will cover the full details of the regulatory regime that will apply.
2. SAMA will assess whether an applicant that is a foreign insurance company will as a whole satisfy, and continue to satisfy, the conditions for authorization. SAMA will assess the circumstances of the company as a whole and not just those of any proposed branch in Saudi Arabia. In making its assessment, SAMA will take into account all relevant matters, including the nature and extent of the regulation and supervision to which the applicant is subject in its home country and whether the company as a whole meets SAMA solvency requirements. SAMA will seek to liaise with any home country supervisory authority and will take into account any information received from it with respect to the applicant, including the adequacy of the applicant's resources and the applicant's suitability for authorization, having regard to the need to ensure that the applicant's affairs are conducted soundly and prudently. SAMA will not authorize a foreign insurance company to operate an insurance branch in Saudi Arabia without:
 - 2.1 Confirmation from the home supervisory authority that the applicant is authorised to carry on the types of insurance business proposed in its home country.

- 2.2 Confirmation from the home supervisory authority that the applicant has been writing the same lines of business in its home country for the past five years.
 - 2.3 Confirmation from the home supervisory authority that the applicant is solvent and meets all the regulatory requirements in the home jurisdiction.
 - 2.4 Confirmation by SAMA that the foreign insurance company meets the capital and solvency requirements that would apply if the company were based in Saudi Arabia.
 - 2.5 Confirmation that the branch will possess assets in excess of liabilities in respect of business written in Saudi Arabia amounting to at least SR 100m for an insurer and SR 200m for a reinsurer. When assessing the net assets in Saudi Arabia in respect of the business written in Saudi Arabia, the technical provisions, asset values and admissibility of assets will be determined in accordance with the Implementing Regulations. The net assets of the Saudi Arabian branch should not be used to cover solvency requirements of business written outside Saudi Arabia.
 - 2.6 The total invested assets of the branch shall be held by a Saudi licensed bank as custodian.
 - 2.7 Confirmation that the branch will make a statutory deposit of SR 10m for an insurer or SR 20m for a reinsurer, which may be part of the net assets referred to in paragraph 2.5 above. Where SAMA concludes that the risk profile of the applicant's business warrants it, the statutory deposit may be increased up to a maximum of SR 15m for an insurer or SR 30m for a reinsurer. The branch shall place the statutory deposit amount, within three (3) months of the date of issuing the license, in a bank designated by SAMA. The Agency shall invest the statutory deposit and shall be entitled to its earnings.
 - 2.8 Confirmation that the branch in Saudi Arabia will operate in accordance with the Cooperative Insurance Law and its implementing regulations.
 - 2.9 Confirmation that the branch in Saudi Arabia will not engage in any activities other than insurance and reinsurance activities for which it is authorised by SAMA.
3. SAMA will not authorize a branch of a foreign insurance company or a branch of a foreign reinsurance company to operate in Saudi Arabia unless:
 - 3.1 It maintains a presence and premises in the Kingdom appropriate to the nature and scale of its activities in Saudi Arabia.
 - 3.2 It establishes appropriate management and accounting procedures in Saudi Arabia, which will enable the preparation of its accounts

concerning its business, carried on in Saudi Arabia and keep in Saudi Arabia all the necessary records for this business.

3.3 It designates the General Manager for the branch, who is resident in Saudi Arabia, authorised to act generally, and to accept service of any document, on behalf of the applicant company.

3.4 All managerial roles defined by the Implementing Regulations and SAMA are carried out by designated individuals resident in Saudi Arabia.

3.5 The General Manager for the branch, controllers and managers of the applicant company are fit and proper persons.

4. A foreign insurance company wishing to obtain a licence to operate an insurance branch in Saudi Arabia must make an application to SAMA which contains information similar to that required under Article 4 of the Implementing Regulations. The information should be in respect of the business as a whole for paragraphs 1 to 4 and the Saudi operation for paragraphs 4 to 7 of the First part of Article 4. The bank guarantee in paragraph 8 of the First part of Article 4 must cover the excess assets referred to in paragraph 2.5 above.

5. In addition to the information required under paragraph 4 above, a foreign insurance company wishing to obtain a licence to operate an insurance branch in Saudi Arabia must also supply the following:

5.1 A projection of world-wide premium income both gross and net of reinsurance ceded in each of the first five financial years following authorisation and broken down between Saudi Arabia and elsewhere.

5.2 A summary of the risks the company will underwrite outside Saudi Arabia.

5.3 A summary of the reinsurance arrangements for the business of the company written outside Saudi Arabia including the company's maximum retention per risk or event after all reinsurance ceded and the names of the principal reinsurers.

5.4 A statement showing the current margin of solvency of the company (after application of valuation regulations), the margin of solvency required and how both have been calculated on both a home country and SAMA basis.

5.5 Balance sheets and profit and loss accounts of the company for each of the last five financial years.

6. In deciding whether to authorize a branch of a foreign insurance company in Saudi Arabia, SAMA will pay close regard to the company's activities elsewhere and how these activities are regulated. SAMA may consider reports produced by the IMF/World Bank, such as their Financial Sector Assessment Program (FSAP) for any particular territory. If the applicant is

not regulated elsewhere (e.g. some countries do not regulate reinsurance firms) or if the applicant is regulated in a jurisdiction not substantially compliant with IAIS Core Principles or FATF standards, then the application can only be considered after exhaustive enquiries into the firm's shareholders, management structure and financial position. SAMA will need an assurance that it may exchange and share relevant supervisory information with the home supervisory authority.

7. Where a foreign insurance company operates an insurance branch in Saudi Arabia, a minimum of 10% of the net surplus arising from the business written in Saudi Arabia must be distributed to the policyholders directly, or in the form of reduction in premiums for the next year.
8. Where a foreign insurance company operates an insurance branch in Saudi Arabia, 20% of the net shareholders' income in respect of the branch, determined in accordance with Article 70 of the Implementing Regulations, shall be set aside to increase the excess assets of the branch in respect of the business written in Saudi Arabia until the excess assets amount to SR 200m for an insurer and SR 400m for a reinsurer. When assessing the net assets in Saudi Arabia in respect of the business written in Saudi Arabia for the purpose of meeting this requirement, the technical provisions, asset values and admissibility of assets will be determined in accordance with the Implementing Regulations in respect of the business written in Saudi Arabia. The assets of the Saudi Arabian branch should not be used to cover solvency requirements of business written outside Saudi Arabia as in paragraph 2.5 above.
9. Where a foreign insurance company operates an insurance branch in Saudi Arabia, it shall invest its assets matching its liabilities (including technical provisions) in respect of business written in Saudi Arabia in accordance with Articles 59 to 63 of the Implementing Regulations.
10. Where a foreign insurance company operates an insurance branch in Saudi Arabia, it shall comply with Article 40 of the Implementing Regulations in respect of its reinsurance arrangements in respect of business written in Saudi Arabia.
11. The SAMA fee of 0.5% of total underwritten premiums under Article 36 of the Implementing Regulations will be levied only in respect of business written in the Saudi Arabian branch.