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Cooperative Insurance Market in KSA :

Challenges, Growth Opportunities & Suggestions for Development.

"An Empirical Study"

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Cooperative Insurance Market in KSA

Insurance activity is one of the main pillars of economic theory. KSA is the most influential & biggest economy in the Middle East.

- I decided to study the Saudi insurance market as it is considered an emerging market, especially in light of the economic liberalization policy.

It can be described as:

A fiercely competitive market between foreign & national companies, a very low insurance penetration & a very low insurance density.

Cooperative Insurance Market in KSA

The purpose of this research is:

to find feasible, applicable, & viable solutions; so that we can avoid any severe, adverse, & harmful disruption on the insurance sector & consequently on the policy holders.

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The study aims to achieve the following objectives:

1-determining the main features of the Saudi insurance market.

2-clarifying the most important challenges that face the insurance sector under the GATT

3-determining the most important & valuable suggestions on how to prepare the insurance sector to face future challenges.

Cooperative Insurance Market in KSA

The Importance of the Study is: to study the reality of the insurance market in this period is crucial due to its exposure to the global economy's vulnerability which has affected all sectors.

It represents a special importance in the current phase with respect to the effects of the GATT agreement on the insurance sector & to reach the most important policies & procedures to be followed for the development of the insurance sector & facing the side effects of globalization.

Cooperative Insurance Market in KSA

Study Plan: the objective of this study will be achieved through the following sections:

Section One: The most important features of the Saudi insurance market.

Section Two: The challenges facing the insurance sector, especially in light of GATT.

Section Three: The most important actions & policies to be followed for the development of the insurance sector.

Results & Recommendations

Cooperative Insurance Market in KSA

The Importance of the Study:

1-The study of the reality of the insurance market in this particular period is important due to its exposure to the global economy's vulnerability which has affected all sectors.

2-This study represents a special & particular importance in the current phase with respect to the effects resulting from the currency of GATT on the insurance sector.

Cooperative Insurance Market in KSA

3-To address the most important policies & procedures to be followed for the development of the insurance sector & facing the side effects of globalization, so we wouldn’t be surprised by its negative effects.

Therefore I offer the officials who are responsible for supervising & controlling the insurance sector some elements which I see the inevitability to be discussed in a scientific & practical manner. These elements are:

Cooperative Insurance Market in KSA

First: Technical Skills: many challenges such as: Production, Investment, Managerial & technical expertise.

Second: Very Poor Public Awareness of Insurance: There is a severe lack of Insurance public awareness, which is evident through insurance penetration & insurance density.

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Third: Competition: it is the most important feature & condition of open markets, which relies mainly on the idea of survival of the fittest & strongest. But this would happen in the insurance sector under the policy of economic liberalization, as competition will be intensified either between national companies & foreign companies, or between national companies among themselves.

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As we know, the client would prefer to deal with an insurance company that: offer a distinctive insurance service, meet their own needs, sell for lower prices, & has strong financial solvency. The competition will be intense given that foreign companies enjoy advanced information technology, huge capital & reserves & low production costs.

Cooperative Insurance Market in KSA

Besides, its reliance on technical rates that are much lower than the rates applied in national companies in most insurance branches.

Fourth: Supervision & Control: despite the supervision & control in the Saudi market (SAMA: Saudi Arabia Monetary Agency), there are many types of risks & obstacles that face the insurance sector in light of the economic liberalization policy which must be noted.

Cooperative Insurance Market in KSA

-The insurance market is relatively new in KSA.

-There were nearly 100 companies registered abroad & were acting as intermediaries, agents or branches of foreign insurance companies since the beginning of the 1970s.

-In 1986 the National Company for Cooperative Insurance (NCCI)-now called TAWUNIYA- was formed as a KSA joint stock company (Public Investment Fund, Pension Fund & GOSI as its shareholders).

Cooperative Insurance Market in KSA

It was established to provide insurance services to the private sector & large governmental projects & to ensure the retaining of a large portion of the insurance premiums inside KSA.

Cooperative Insurance Market in KSA

The Council of Senior Scholars in KSA issued a decision number 51 on Mar 23, 1977 which considered cooperative insurance contract as a donation contract & accordingly approved by the Islamic law (in coincide with Shari'a Laws). By the end of 2003, the Law on Supervision of Cooperative Insurance Companies, promulgated by Royal Decree (M/32) on August 1, 2003, was enacted, followed shortly by the Implementing Regulation, early in 2004.

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This law states that: “Insurance in KSA should be cooperative insurance which does not conflict with the provisions of Islamic Shari’a, & cooperative insurance comprise of: Health Insurance, Auto Insurance, Fire Insurance & Compulsory Contractors Insurance. The life insurance is the prerogative of banks as instructed by the Saudi Arabia Monetary Agency (SAMA).

Cooperative Insurance Market in KSA

-The Control & Supervision of Cooperative Insurance Companies Regulation, was the first Saudi Arabian legislation regulating insurance sector.

-There were over 75 insurance operators writing insurance business in KSA, without virtually any regulation at all.

-Now, this has changed as what used to be an unregulated, free-for-all has become one of the most powerful & closely regulated insurance markets in the Gulf region.

Cooperative Insurance Market in KSA

The lack of regulation before the Royal Decree on August 1, 2003, does not mean that the Saudi government took a non-interventionist approach to the insurance industry, but its past reluctance to regulate the insurance arose from the uncertain status of insurance under Sharia'h Law. While, for example, the prohibition of charging or paying interest is based on clear statements in the primary sources of Islamic Law, there is no reference to insurance in the Islamic Law texts which are regarded as authoritative in KSA.

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This is not surprising, because these texts were compiled in the period from the 13th to 17th centuries of the Gregorian calendar, that is, at a time when insurance was just evolving as a business in Europe. In KSA, the debate of whether or not contracts of insurance are legitimate under Sharia'h law was narrowed down to the key issue that "to profit from an insurance transaction is against Islamic law, while collective risk sharing is acceptable & in the community's interest".

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This is based on Decision No 51 of March 23, 1977 of the Supreme Council of the Senior Al'Ommah, a KSA government body of religious scholars, who ruled that cooperative (or mutual) insurance is "a form of donation contract" & because no one is supposed to profit from cooperative insurance transactions, the Senior Al'Ommah considered insurance in this form to be acceptable under Islamic Law.

Cooperative Insurance Market in KSA

That is why the NCCI has been established in 1986- in response to the Senior Al'Ommah's recommendations that a cooperative insurance company should be established in KSA to offer an alternative to commercial insurance.

Cooperative Insurance Market in KSA

In keeping with NCCI’s articles of association, the company maintains separate accounts for both its policyholders & for its shareholders. Therefore, it is actually a hybrid between a true mutual insurer, which is wholly owned by its policyholders & not traded on the stock market, & a commercial insurer, but nevertheless sufficiently mutual to meet the Senior Al’Ommah’s recommendation that it should conduct its business on a cooperative basis.

Cooperative Insurance Market in KSA

Although there was never a statutory prohibition of commercial insurance in KSA, the Ministry of Commerce did not issue commercial registrations to any company, other than NCCI, to conduct insurance business in KSA. Nevertheless, a fair number of foreign-registered insurance organizations operated in KSA, most of these were Bahraini-exempt companies, i.e., companies registered in Bahrain with the express purpose of not conducting business there.

Cooperative Insurance Market in KSA

The companies' day-to-day business in KSA, such as writing policies & settling claims, was done through a local agent, i.e. the majority of insurance operators in KSA were foreign-based but marketing & underwriting risks within KSA.

Cooperative Insurance Market in KSA

According to the law, conducting any kind of business in KSA without holding the prerequisite commercial registration is unlawful. Not withstanding this, the Ministry of Commerce exercised a loose supervisory function over foreign insurers who conducted business in the country, & there certainly was nothing secret in the manner in which those organizations operated.

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For example, all government construction contracts contain a proviso that the contractor must have a Contractor's All-Risks Insurance with an insurer who is represented in KSA , & it was quite acceptable to insure such risks with Bahraini-based, Saudi-operating insurers other than NCCI. Despite this predicament created by an interpretation of the Islamic law principles, having an insurance industry which is essentially offshore & not subject to strict local supervision naturally created problems.

Cooperative Insurance Market in KSA

There were many insurers who were financially unsound & sometimes unscrupulous, collected premiums & disappeared overnight. Also, local retention of risk & reinsurance within the Saudi market was low, (over 70% of the premiums left the country). Nevertheless, until recently, no serious efforts were made to impose real control on KSA's insurance market.

Cooperative Insurance Market in KSA

The current reforms for allowing & regulating insurance were driven by the following two important changes that took place in KSA:

1. The medical compulsory Insurance.
2. Joining the World Trade Organization.

Cooperative Insurance Market in KSA

For many years, all health-care in KSA has been free to all citizens & foreign residents (about 9 millions), this imposes a considerable burden on the nation's healthcare system & the economy as a whole. To alleviate the problem, the government introduced the Cooperative Health Insurance Act on August 13, 1999, which makes it mandatory for employers to buy private medical insurance for their foreign employees & their dependents.

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The Regulation requires that insurers providing cover under the scheme must be Saudi registered cooperative insurance companies. Because there was only one entity which fulfills this requirement, the NCCI (now named TAWUNIYA), the effect of the legislation could have been the introduction of a state-owned monopoly. However, the expansion of state-owned industry was not in line with the overall government policy.

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Rather, the Saudi government has been working to encourage an increase in the private sector's role in the economy as a whole not to decrease it. Setting up the provision of health insurance to an estimated six million persons within a relatively short period would have been a logistical exercise well beyond the capacity of any single entity.

Cooperative Insurance Market in KSA

The second key driver to the introduction of insurance regulation in KSA was King Abdullah's determination to have Saudi Arabia accede to the (WTO). A part of Saudi Arabia's agreement to join it was the opening up of its insurance sector to foreign companies.

Cooperative Insurance Market in KSA

In truth, this is a paradox, because in its past unregulated state, the Saudi insurance market was open to all comers, albeit not in official basis as it was closed to both foreigners & Saudis alike to establish a licensed Saudi Arabian insurer, since there was no framework for setting up such entities, other than NCCI. That is why the Control of Cooperative Insurance Companies Regulation came into force in 2003 with the issue of the Implementing Rules in 2004.

Cooperative Insurance Market in KSA

When the decision was made for KSA to open its doors to insurance, it was done so on the basis of improving the consumers' welfare, to be in the public interest, to enable the nation to deal with its healthcare insurance problem, & to bring about an open market, fairness & a level-playing field between foreign & domestic insurance companies to be in line with the WTO agreements.

Cooperative Insurance Market in KSA

Objectives of the Law & its Implementing Regulations:

1. Protection of policy holders & shareholders.
2. Encouraging fair & effective competition.
3. Enhancing the stability of the insurance market.
4. Enhancing the insurance sector in KSA & provide training & employment opportunities to Saudi nationals.

Cooperative Insurance Market in KSA

The government regulator of the Saudi insurance sector is the Saudi Arabian Monetary Agency (SAMA), which, since its formation in 1957, has proven to be a successful & a strict regulator of the Saudi banking sector. Indeed, SAMA has brought this young nation's monetary system well within modern standards.

Cooperative Insurance Market in KSA

SAMA's insurance regulatory powers in KSA:

1. Regulating the establishment of insurance & reinsurance companies in KSA;
2. Supervising the technical aspects of insurance & reinsurance companies' operations;
3. Regulating the distribution of surplus funds to shareholders & policyholders;
4. Determining the minimum capital & solvency requirements for each class of insurance business required by companies;

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5. Setting the rules of regulating the companies' investments both inside & outside of KSA.

6. Actuarial & rating approval.

7. Determining the educational & qualification requirements of insurance company personnel, brokers & agents.

8. Approving the insurance forms & documents.

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9. Setting standards & rules governing the practice of salesmen & related disclosure of information & protection (code of conduct).
10. Interpreting the contract & its enforcement.
11. Determining, organizing & supervising the mandatory (compulsory) coverage's.

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First: Results:

1-Insurance penetration in KSA is very low: 0.92%, 1.03%, 0.97%, 0.86% & 0.78% during the period: 2008-2012 (which is the first indicator to measure the insurance awareness).

During the past five years, it has decreased by an average annual rate of 3.5%.

Cooperative Insurance Market in KSA

2-Insurance density is very weak also (the second indicator to measure the insurance awareness) where it reached US 117.36, 153.55, 161.01, 181.87 & 193.39 during the period 2008-2012 & if we take into account the rate of inflation during this period, we find that the these values would be less.

3-Insurance density of Protection & Savings insurance remained very low (US 8 per Capita in 2012). It has decreased during the period 2009-2012 by an average annual rate of 7.68%.

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4-Most of the premiums comes from Compulsory insurance as auto & health insurance accounted for 75.4% of the GWP & based on the values of the above insurance density & penetration we can say that the level of insurance awareness in KSA is very low.

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5-If we compare the values of insurance penetration & density of some other countries with the values of KSA during the same period we find that:

-The insurance penetration of the world market on average was 6.6% in 2011 while in the Saudi market it was 0.9% in 2011, (about 13.64% of the world average).

-The insurance penetration of the Asian market was 5.8% during the year 2011 while in the Saudi market it was 0.9% in 2011, (about 15.52% of the Asian average).

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-The ranking of KSA with regard to insurance penetration at the global level in 2011 was 81 & 23 at the level of the continent of Asia.

-The insurance penetration of KSA with regards to life insurance was 0.1% of GDP while the world average is 3.8% (which represents 2.63%) & in Asia is 5.8% (which represents 2.33%).

-Insurance density of the global market, was $661 in 2011, while in the Saudi market was $177 in 2011, (26.78% of the world average).

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-Insurance density of the Asian market, was $314 in 2011 & in the Saudi market $177 in 2011 (about 56.37% of the Asian average).

-The Saudi Arabia global ranking with respect to insurance density is 59th & 16th with respect to the ranking in Asia.

-Insurance density of KSA with regards to life insurance was $10 per capita while the world average is $378 (which represents 2.65%) & in Asia was $ 229 (which represents 4.37%).

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-The insurance density of non life insurance was $167 which is low as it represents 59.01% of the world average, which was $283 dollars but higher than the average in Asia ($85) as it represents 196.47%).
-The insurance density of life insurance was $10 which is very low as it represents 2.65% of the world average ($ 378) & 4.37% of the Asian average ($ 229).

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- If this decrease in the insurance density of life insurance can be justified for religious reasons, the decrease in general insurance is not justified, especially if we take into consideration that the average of income is somewhat high in KSA & there are huge values of property.

All of the above confirms the low level of awareness of insurance in Saudi Arabia.

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6-The overall insurance Gross Written Premiums (GWP) increased by SR 2.7 Billion to reach SR 21.174 Billion in 2012, compared to SR 18.5 Billion in 2011, which represents a growth rate of 14.42%.

-Health insurance remained the biggest line of business in 2012. Its contribution to total GWP slightly increased from 52.46% in 2011 to 53.30% in 2012, while General insurance's contribution to total business volume remains at 42.50% in 2012.

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-Protection & Savings insurance remained the smallest line of business accounting for 4.20% of total GWP, with a decrease in its written premiums by 1.77% in 2012.

7-Around 89.3% of total NWP in 2012 was generated by Motor & Health insurance.

8-The retention ratio of KSA insurance market increased to 75.8% in 2012 from 73.2% in 2011. This ratio is largely skewed due to the high retention ratio of Motor & Health insurance which accounted for 75.4% of GWP

Cooperative Insurance Market in KSA

In 2012, the retention ratios for Motor & Health insurance were 94% & 88%, respectively. But the weighted average retention ratio of other insurance lines of business (i.e., excluding Motor & Health insurance) remained unchanged at 20% in 2012 compared to 2011.

9-Total gross claims paid increased by 18.5% from SR 11.5 Billion in 2011 to SR 13.6 Billion in 2012 where Health & Motor gross claims paid grew by 16.6% & 26.9%, respectively compared to 2011 figures.

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-Property/Fire insurance recorded the highest growth rate in gross claims paid, after increasing by 46.7% in 2012 from SR 527 Million to SR 774 Million in 2011.

10-General & Health Net Claims Incurred NCI increased by 30% for the year 2012 to reach SR 10.9 Billion while General & Health net claims ratio increased to reach 77.6%.

11-In 2012, the insurance underwriting result totaled SR 1.13 Billion, which represents a 22% increase from 2011 figures.

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-Investment result increased to SR 123 Million in 2012 from SR 70 Million in 2011, which represents a 76% increase from 2011 figures.

-The insurance market's net result increased to 972 Billion in 2012 from SR 890 Billion in 2011, which represents a 9% increase.

-Return on assets (ROA) in 2012 was 2.8% & return on equity (ROE) was 9.6%.

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-12 In 2012, the top 8 insurance companies generated 69% of the insurance market's GWP while the remaining 27 insurance companies included in the report accounted for the remaining 31% of market total premiums.

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<u>13-The most important challenges that face the insurance sector in Saudi Arabia are:</u>

<u>-In the area of production:</u> insurance companies rely mainly in their marketing operations on production department employees who work based on salaries & commissions, & their level of educational, cultural & technical expertise is not up to the required standards, this affect the level of services they provide & consequently their capability to compete.

Cooperative Insurance Market in KSA

All this leads to limiting competition to price discounts that is not based on a technical basis & to harmful competition which affects the results of the insurance companies operations & its investment activity.

-Production in insurance companies, state-owned under the previous circumstances, was depending on the administrative decisions to insure the risks that face public & government companies, but economic liberalization will affect these decisions & the management of insurance companies will face a big problem in production.

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-The insurance market lacks in term of production & brokerage companies, either in number or qualification that provide the best service & the lowest rate to the customer & work primarily for their own interest.

-The brokerage companies do all stages of the insurance process starting from risk assessment, premium calculation & ending by loss settlement-if it happens.

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-As the cultural & professional level of the producers is very low, which leads to the difficulty of marketing, then they tend to rely on giving a reduction in the premium without relying on persuasion of applicants through the benefit differences between the policies & insurers & therefore they limit the comparison to be just on the prices alone.

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-In the area of investment: there is a great need for a distinct technical staff, specialized & able to identify the most appropriate areas of investment & the amount that should be invested in each area in order to achieve the basic principles generally accepted in the investment of insurance funds, namely: security, liquidity & profitability.

Cooperative Insurance Market in KSA

<u>The most important challenges facing the investment in the insurance sector under the GATT are:</u>

-Limitation of the domestic insurance market.

-Small capital values of the local insurance companies.

-Low retention rates.

-Low capacity utilization rate.

-Lack of using the new methods of marketing insurance services & lack of attention to the concepts of measuring consumer trends & customer satisfaction.

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-Weakness of the investment department at national insurance companies:

-Lack of expertise & technical cadres in the field of fund investment of national insurance companies:

-Lack of the insurance companies participation in spreading public insurance awareness.

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-There is a tendency toward the least risky projects with more liquidity & therefore most of the insurance investments tend to go to bank deposits & government bonds, which lead to a gap between the returns of investment achieved by insurance companies & what can be achieved by international companies.

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-In the area of technical & managerial expertise: there is a lack at the senior management level in terms of skills & experience, inadequacy in the area of underwriting, loss adjusting, investment & reinsurance & an apparent insufficiency in the number of actuaries.

-In the area of insurance awareness: there is a severe weakness of insurance awareness which was clear when we calculated the insurance density & penetration in KSA during the period of 2008 – 2012.

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-In the area of competition: competition will spark between national & foreign companies & between national companies among themselves as a result of the open market policy. Competition will be very strong given that foreign companies are having an advanced information technology, large capital, low cost of production & its reliance on technical rates that is much lower than the applied rates in the national companies in most branches.

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Also, some methods of dealing from insurers with the insured have left a bad impression toward the insurance industry, which made it difficult either to maintain the current clients or to attract new customers under the competition with the foreign companies, which will be reflected upon the size of the investment portfolios of the national insurance companies.

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By the end of the day, the customer would prefer to deal with the company that: offers a distinguished insurance service, delivers insurance policies that meet their own needs, offers lower prices, & has a high solvency margin. Then the national companies would lose their customers.

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-In the area of supervision & control: even though some people see no need for supervision & control over insurance under the liberalization economic policy & the freeing of prices, we feel that the role of insurance supervision has been intensified & the need for it has been increased albeit in different shapes.

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We mean that the supervision & control have been changed from price controlling & preventing harmful competition between the national companies to monitoring the financial solvency & verifying the adequacy of the financial & technical provisions & reserves.

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Also, the availability of the necessary conditions for establishing new companies, as well as to check the availability of technical & administrative personnel, either at the time of formation or during practice, especially top & technical management positions.

Also, setting up the necessary legislations to regulate the market & the qualifications of actuaries, brokers & insurance agents & solving any dispute between the insurance companies with each other or with insured.

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Recommendations:

1-Under the obligations of the GATT that has been signed by KSA, regarding the insurance sector, it must amend the provisions of the laws to cope with the new changes & the anticipated climate of competition as it was inevitable on any country committed to the GATT to pay attention to 3 key elements:

-Liberalizing the structure of the insurance market.

-Liberalization of rates.

-Strengthen the supervisory role of the supervisory authority over insurance.

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2-Regarding the most important challenges that face the insurance sector in KSA we can consider the following recommendations:

-In the area of production: there is a great need for raising the cultural & professional level of the producers through requiring minimum educational levels (higher than the currently required) & the necessity of passing tests from a specialized institute or syndicate, that should be established for this purpose to take care of the interests of this important category to organize its business.

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-Every insurance intermediary (producer, agent, broker...etc) has to be licensed through this association before he practices.

-Also, as many types of insurance need special expertise & education, so we have to apply the principle of specialization as it is not acceptable for any intermediary to sell all types of insurance. We recommend SAMA to encourage the production & brokerage companies to enter the market & facilitating their formation & registration.

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-Insurance companies should change their production policy through using other methods of marketing & paying more attention to the issue of selecting, training & preparing qualified personnel in addition to relying on the specialized agencies in production- as the Saudi Insurance market is in desperate need of these things & the foreign companies & their affiliates have an extraordinary advantage in this matter at the expense of national companies.

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Also, the national insurance companies must change their production methods in dealing with the client through team work- not like what is happening right now as it does all the process alone. Through team work one agent prepares the applicant for insurance, the second agent identifies risks & hazards, the third presents the alternatives & the fourth delivers the offer, ... etc., until the job is done & the commission will be collective.

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Finally, commission should be tied to the technical results (loss ratio) of each producer or each group to differentiate between them based on their results & for sure this method will be reflected on their selection of risks.

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-In the area of investment: an independent, professional & specialized investment management companies should be established to manage these funds, albeit the size of these investments are limited at the moment, but it will increase drastically in light of the expected spread & expansion of protection & savings insurance, which includes huge technical provisions that are invested for long periods unlike the existing general insurance.

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The insurance companies' management has to find a solution to the challenges that face their investments, so besides hiring a distinct & specialized technical staff & entrust its investment to specialized companies they have to:

-Expand the domestic insurance market.

-Increase the capital values of the national Insurance companies.

-Increase the retention rates.

-Increase the capacity utilization rate.

Cooperative Insurance Market in KSA

-Using the new methods of marketing insurance services & paying more attention to the concepts of measuring consumer trends & customer satisfaction.

-In the area of technical & managerial expertise: as we have seen that there is a clear deficiency at the senior management level in terms of skill & experience, in the area of underwriting, loss adjusting, investment & reinsurance & an apparent deficiency at the number of actuaries,

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then SAMA & the insurance companies have to pay more attention to the issue of continuous training, & we can apply the Malaysian model in this matter (insurance companies to spend at least 1% of the total salaries of the previous year in training their employees & if not fully spent the balance will be converted to a special account that has been established for training the whole market).

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-In the area of insurance awareness: there is a severe lack of insurance public awareness, then, a major effort has to be done through the Insurance Supervision & Control Authority, as one of its duties in any state is to raise insurance awareness levels. Also, it is the responsibility of the insurance companies (through formation of an insurance union) to spend more effort & a large proportion of their profits to raise the insurance awareness for all citizens & residents.

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The reason behind this is that it is their responsibility to do so, as they are the primary beneficiaries of raising the insurance awareness & thereby increase the insurance penetration & density of the insurance market.

-Insurance companies should participate actively to spread public awareness & educating them about their insurance rights.

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Also, the insurance companies have to change their image regarding dealing with insured's as they have left a bad impression toward insurance industry, which made it difficult either to maintain the current clients or to attract new customers under the competition with the foreign companies, which will be reflected at the end, on the size of the investment portfolios of the national insurance companies.

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-In the area of competition: as competition is & will be severe, insurance companies should move in the following directions during the coming period to face the competition that results from opening the market:

1-Conducting the necessary studies about loadings for production commissions, general & admin expenses & the profits to find ways to reduce them.

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2-Improveing & developing methods of delivering the service & using the modern methods of marketing in addition to relying on the specialized production agencies.

3-Paying more attention to the training, selection & preparing qualified personnel & setting aside a proportion of the annual salaries of the employees for this purpose.

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4-Implementing a market study to identifying customer needs accurately to providing new insurance coverage's which are consistent with the rapid development in all areas, where the foreign companies have many competitive advantages based on their research capacity to developing its services & meeting the needs of customers & keeping pace with the development that is happening in the community first hand.

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5-Paying more attention to raise the level of insurance awareness & setting aside an annual budget for this purpose & to be shared by all insurance companies.

6-Paying more attention to the insurance policies both in terms of form or contents & phrasing which still contains strange & incomprehensible phrases that result from literal translation of foreign policies.

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7-Reconsidering the current prices to be congruent with the world prices that the foreign companies are using for the same risks.

8-The national companies should understand that the time has come to work as an integrated team not to fight bitterly, as all companies, big or small are exposed to the same risks even in different degrees & therefore it is in their best interest to cooperate.

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9-The national companies during the initial entry of foreign companies may try to reduce prices. This should be based on technical basis otherwise it would result in depletion of reserves & provisions or even bankruptcy. But the giant foreign companies can reduce their prices due to their financial strength & its ability to absorb & compensate for the losses that may be exposed to in a particular country from other countries due to the international geographical spread.

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So, it is inevitable for national companies to merge - especially small & medium sized ones - to reduce competition among themselves & conglomerate in the face of foreign companies.

10-It should be clear to all companies that the collapse of even one national company at the beginning will lead to a loss of confidence in all national companies & consequently the policyholders will turn to the foreign companies.

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11-All national insurance companies should pay more attention during this period to the underwriting process & rate making as most of the current generations have originated under the tariff regime (rates from schedules) & therefore the experience to pricing risk is very limited. So they must train a new generation who are qualified & capable of pricing risks.

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The issue is very serious because the lack of availability of qualified underwriter would result in either assessing the risk more than it should be & thus leads to losing the customer who would turn to another insurance company & this decrease the size of the portfolio, then the law of large numbers will not be met & the actual results will deviate from expected results.

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Or assessing the risk less than it should be & this leads to insufficient premiums & consequently, the inability to pay the claims & both cases lead to the company's collapse.

12-Establishing insurance pools in many branches such as: energy, fire, marine, aviation, etc. which helps to take advantage of the total capacity of the market - rather than the capacity of each individual company - & thereby reducing the percentage of premiums that goes outside.

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13-Expanding the use of information technology for planning & budgeting, which helps to make the rational decision.

-In the area of supervision & control: we must realize that the role of the insurance supervision in KSA after liberalizing the insurance market has to be intensified & the need for it has to be increased more before albeit with a different shape.

Cooperative Insurance Market in KSA

We mean that the supervision & control has to change from controlling prices & preventing harmful competition between the national companies to monitoring the financial solvency & verifying the adequacy of the financial & technical provisions & reserves. Also, the availability of the necessary conditions for establishing of new companies, as well as to check the availability of technical & administrative personnel, either at the time of formation or during practice, especially top & technical management positions.

Cooperative Insurance Market in KSA

In addition, setting up the necessary legislations to regulate the market & the qualifications of actuaries, brokers & insurance agents & solving any dispute between the insurance companies with each other or with the insured.

Cooperative Insurance Market in KSA

Thank You!

Any Questions?