

Law
On Supervision of Cooperative Insurance
Companies

Article 1

Insurance in the Kingdom shall be undertaken through registered insurance companies operating in a cooperative manner as it is provided within the article establishment of the National Company for Cooperative Insurance promulgated by Royal Decree M/5 dated 17/5/1405 H, and in accordance with the principles of Islamic Shari'a.

Article 2

Subject to the provisions of the Cooperative Health Insurance Law, promulgated by Royal Decree M/10 dated 1/5/1420 H, The Saudi Arabian Monetary Agency (the "Agency") shall, in the course of implementing the Regulations, have the following powers:

- 1- To receive applications for establishing cooperative insurance and re-insurance companies, study the applications to ensure compliance with applicable rules and conditions and, if approved, refer the applications to the Ministry of Commerce and Industry to take the necessary legal requirements.
- 2- To supervise technically the operations of insurance and re-insurance in accordance with the principles specified by the Implementing Regulations of the Law and with the methods of supervision used by the Agency, and in particular:

- a) regulating and approving the rules of investment in insurance and re-insurance operations and establishing a formula for the distribution of the surplus of insurance and re-insurance operations between the shareholders and the insured persons after giving regard that there are accounts for shareholders and other separate accounts for the insured persons and insurance operations.
- b) determining the funds that need to be deposited in one of the local banks to undertake each class of insurance activity.
- c) approving insurance and re-insurance standard policy forms and fixing the minimum amounts for covering third party liability, subject to other applicable laws.
- d) establishing rules and controls to determine the means of investing in the assets of insurance and re-insurance companies.
- e) establishing general rules to determine the assets that each company should maintain inside and outside the Kingdom, with a minimum and maximum amount for each class of insurance and the conditions to be observed for each class, along with specifying the minimum and maximum amount of contributions and insurance premiums against the capital and reserves of the company.

Article 3

No insurance or re-insurance Company may be incorporated in the Kingdom without a license issued by Royal Decree after a virtue of an Edict issued by the Council of Ministers upon a recommendation from the Minister of Commerce and Industry in accordance with article 2 above, provided that:

- 1- The applicant must be a joint stock company.
- 2- The main object of the company shall be to engage in any of the insurance and re-insurance activities, and not to undertake any other activities unless they are complementary or necessary. Insurance companies may not directly own brokerage companies or establishments. Re-insurance companies may not also own re-insurance brokerage companies or establishments. However, insurance companies may, subject to obtaining the Agency's approval, own companies or establishments engaged in re-insurance brokerage activities.
- 3- The capital of the insurance company shall not be less than SR 100,000,000 and the paid-up capital of a re-insurance company or an insurance company engaged at the same time in re-insurance activities shall not be less than SR 200,000,000. The capital may not be altered without the Agency's approval in accordance with the Companies Law.

Article 4

The Implementing Regulations shall specify the insurance activities covered in this Law and each insurance company shall determine the type of activities it will undertake.

Article 5

Insurance and re-insurance companies may not, after commencing to engage in operations, suspend their insurance activities without the approval of the Agency to ensure that the insurance companies have made the necessary arrangements to protect the rights of the insured persons and the investors.

Article 6

The Agency's approval of the selection of the members of the boards of directors of insurance and re-insurance companies shall be obtained, in accordance with the criteria specified in the Implementing Regulations.

Article 7

The chairman, managing director, board member and the general manager of insurance and re-insurance companies shall be, each in his respective capacity, responsible for any violation of the provisions of this Law or its Implementing Regulations.

Article 8

The Agency shall have the right to inspect the records and accounts of any insurance or re-insurance company through its personnel or the auditors appointed by the Agency. Such inspection shall take place at the premises of the insurance or re-insurance company and the employees of the company must provide the inspectors or auditors appointed by the Agency with all the records, accounts, documents and information requested by them.

Article 9

Insurance or re-insurance companies may not open branches or offices inside or outside the Kingdom or agree to a merger with, own, control or purchase shares in other insurance or re-insurance companies without the Agency's written approval.

Article 10

1. The general assembly of the insurance or re-insurance company shall, each year, appoint two auditing firms licensed to operate in the Kingdom and fix their remuneration.
2. The annual report submitted by the auditors to the general assembly must include, in addition to the particulars provided for in the Companies Law, the auditors' opinion as to whether company's financial statements fairly reflect its financial position as of the date of the balance sheet and the result of its operations in the financial year then ending, as well as whether the preparation, presentation and auditing of these statements have been done in accordance with the accounting principles applicable in the Kingdom.

3. The financial statements and the auditors' report must be published within three months from the expiry of the company's financial year.

Article 11

The Agency shall have the right to require the insurance and re-insurance companies to provide it, in the form and at the dates it deems appropriate, with any information it sees necessary to realize the objectives of this Law. Such companies must forward to the Agency, upon its request, the following documents:

1. A statement of the revenues and expenses for each insurance class.
2. A detailed statement on its insurance operations during the period.
3. Statistics and general information on their activities.
4. A statement of their investments.
5. Any other statements required by the Agency.

Article 12

Any person who obtains any information in the course of carrying out any act related to the implementation of the provisions of this Law may not disclose such information or use it for the benefit of others in any way whatsoever.

Article 13

All insurance and re-insurance companies must submit to DZIT a tax and Zakat declaration, audited financial statements and other statements or documents requested by DZIT for assessing income tax and Zakat in accordance with the Tax Law and its Implementing Regulations. Such companies shall pay their dues at the times appointed in the Law.

Article 14

Insurance and re-insurance companies subject to this Law must deposit with one of the local banks a statutory deposit for the order of the Agency, and the Implementing Regulations shall determine the requirements regulating such deposit.

Article 15

Insurance and re-insurance companies shall set aside no less than 20% of their profits as a statutory reserve until this reserve amounts to 100% of paid capital.

Article 16

Each insurance and re-insurance company must set aside the necessary reserves for each insurance class they undertake, along with other reserves provided for in the Implementing Regulations.

Article 17

All insurance and re-insurance companies subject to the provisions hereof must maintain a separate account for each insurance class in accordance with the requirements of the Implementing Regulations of this Law. They must also maintain records and books in which shall be entered the insurance policies issued by the company, the names and addresses of the policy holders, the date of executing each policy, its validity, the rates and conditions stated therein and any amendment or alterations effected thereon. The Agency may, at its own direction, issue resolutions requiring insurance companies to enter in such records and books any information needed for exercising the Agency's supervisory powers. Such recorded data and information may be stored on the computer under the rules and

procedures set forth in the Implementing Regulations of the Commercial Books Law.

Article 18

The Agency shall lay down the required conditions for granting licenses to self-employment occupations related to insurance, particularly the following:

1. Insurance brokers
2. Insurance consultants
3. Inspectors and loss adjusters.
4. Experts in settling insurance claims
5. Actuaries

Provided that the license shall be issued by the Ministry of Commerce and Industry to those wishing to engage in these self-employment occupations. The Agency shall undertake supervision and control over the activities of the occupations referred to above.

Article 19

The Agency may, if it establishes that an insurance or re-insurance company has violated the provisions of this Law or its Implementing Regulations, or has followed a policy that would seriously effect its ability to meet its obligations, adopt one or more of the following measures:

1. appoint one or more consultant to provide the company in managing its business activities;
2. suspend or dismiss any board member or employee held responsible for such violation;

3. prevent the company from admitting new subscribers, investors or participants in any of its insurance activities or put a limitation on these acts; or
4. oblige the company to take any action the Agency deems necessary.

If the Agency finds that the company has continued to violate the provisions of this Law or its Implementing Regulations and failed to take any of the measures taken by the Agency, despite the penalties imposed on it under this Law, the Agency may demand that the company be wound up.

Article 20

One committee or more shall be formed by an Edict of the Council of Ministers on a recommendation of the Minister of Finance. Such committee or committees shall consist of three specialized members, one of whom, at least, must be a legal consultant. The committee shall undertake to resolve the disputes arising between insurance companies and their customers or between the companies and other companies when they subrogate the insured persons, and settle violations of regulatory and supervisory instructions issued to insurance and re-insurance companies and the violations of those engaged in self-employment occupations referred to under Article (18) above. Representing the Public Prosecution before this committee, in respect of such violations, shall be the employees appointed by virtue of an order issued by the Minister of Finance. Resolutions adopted by such committees may be appealed before the Grievances Department.

Article 21

Without prejudice to any sterner penalty provided for in any other Law, a penalty of no more than Saudi Riyals one million (SR 1,000,000) or a prison term of no more than four years, or both, shall be imposed on anyone violating any of the provisions of this Law or its Implementing Regulations.

Article 22

Without prejudice the powers of the committee referred to under Article (20) above, the Grievances Department shall have the following powers:

1. Settlement of all disputes between insurance and re-insurance companies or between both.
2. Resolution of claims related to the violations of this Law and the enforcement of the penalties set forth in Article 21.
3. Hearing, on a first instance basis, the claims requiring a prison sentence by the Agency or the committee formed under Article 20.
4. The Public Prosecution shall be represented before the Grievances Department by the employees appointed by virtue of an order issued by the Minister of Finance .

Article 23

The Implementing Regulations of this Law shall be issued by an order of the Minister of Finance, and shall be published within sixty (60) days from the publication of this Law and shall come into effect on the effective day of this Law.

Article 24

Subject to Article (1), the Companies Law shall apply to all matters not provided for herein if it is deemed applicable to this kind of companies.

Article 25

This Law shall be published in the Official Gazette and shall come into effect after the lapse of ninety (90) days from the date of its publication.