



# **A Comparative Study of the Saudi Insurance Legal Environment with the International Insurance Environment – An Empirical Study**

**Dr. Hashem Abdullah AlNemer**

Assistant Professor - Finance and Insurance Department

Vice - Dean, College of Business

University of Jeddah

## **Abstract**

**This paper will provide an overview of the insurance industry in Saudi Arabia and the regulatory instruments that operate under the Saudi Arabian Monetary Agency (SAMA), with a brief on the situations of the licensed insurance companies in the Kingdom. The current paper will also provide information and data on the Saudi insurance market growth rate and financial performance. Importantly, this paper compares the Saudi insurance regulatory laws and directives with the international insurance one and takaful standards and policies with participants' perceptions. No studies have been conducted to systematically compare SAMA's regulations and standards for insurance with an international one. Such comparisons provide an efficient framework for better protections for policyholders. This paper attempts to fill the gap. Distributing survey questioners among takaful participants is another vital approach for this paper. The paper reports results on the perceptions of 420 participants of takaful companies in Saudi Arabia. They were asked in away to figure out if the current directives imposed by SAMA have enough protections towards participants. Protections might occur by enhancing participants' knowledge, perceptions and satisfaction through obligatory disclosure rules of the TOs (takaful operators). A conclusion can be made that SAMA, does not have any directives and laws towards the takaful business, nor does it issue directives that address any Shari'ah concerns. Accordingly, it is highly recommended that SAMA assigns separate directive laws that address the takaful insurance, and the principles of the Shari'ah laws. It is also recommended that SAMA enhances their employees' knowledge about the principles and products of the takaful model. SAMA should also rely on the already-established standards as per AAOIFI, IFSB and similar standards as per IAIS to regulate the takaful insurance in Saudi Arabia.**

**Keywords:** SAMA, Regulations, Takaful, Saudi Arabia.

## **INTRODUCTION**

The insurance industry in Saudi Arabia was unregulated prior to the passing of the Control of Cooperative Insurance Companies Law, which came into force on 20 November 2003 along with its implementing regulations published on 23 April 2004, together with the Cooperative Insurance Regulations (Hodgins and Beswetherick, 2009). However, the implementation of regulations was delayed to April 2008, until the unlicensed entities operating in Saudi Arabia brought their operations into accordance with the requirements of the new law and regulations that have been imposed by SAMA (Wilson, 2007). Prior to the implementations of the insurance regulations, the only options for individuals or businesses operating in Saudi Arabia seeking insurance were between taking out a conventional insurance either overseas or

with an unlicensed provider in the Saudi Arabia or taking out cooperative insurance with Saudi Arabia's former state monopoly provider, the National Company for Cooperative Insurance (NCCI), now known as (Tawuniya) (Hodgins and Beswetherick, 2009). Shortly after implementation of insurance laws, SAMA established an independent team of insurance supervisors to operate in its banking inspection department (SAMA, 2010a). The team has developed from a small internal department of 9 employees to an independent supervisory authority with a team of 44 employees (Hodgins and Beswetherick, 2009). The regulatory body has four main objectives: (i) Protect the rights of policyholders and shareholders', (ii) provide better insurance services for fair and effective competition, (iii) foster stability of the insurance market, and (iv) establish a developed insurance industry by providing training and employment opportunities (SAMA, 2010a).

SAMA is mandated as the regulator for all licensed insurance companies including insurance brokers, insurance agents, insurance consultants, surveyors, loss adjusters and actuaries. In other words, SAMA is responsible for licensing and authorization, supervision, rule-making, supervision of investment of assets and monitoring compliance with capital and reserve requirements (SAMA, 2010a). Such extensive control by SAMA is due to the regulations that accompanied comprehensive laws that have been represented by a number of Articles. These Articles define different types of insurance, the conditions for licenses being granted, corporate governance and regulatory and supervisory procedures (Wilson, 2007). The implementation of the new regulations and laws has made the kingdom to be the largest insurance market in the GCC and one that has developed substantially since insurance business was first permitted in the 1990s (E & Y, 2011). Driven by strong macroeconomic performance due to the global rise in oil prices, rising income levels and positive demographic trends, the Saudi insurance market has grown by double digits for the past 5 years (OBG, 2011).

In order to enhance the supervision and control and application of insurance international standards and practices, SAMA has become a member of the International Association of Insurance Supervisors (IAIS), and it participates in all its main committees and sub-committees. In addition, SAMA is a member of the Arab Forum of Insurance Supervision and Control Authorities (SAMA, 2010b). Accordingly, SAMA is considered one of the strongest insurance regulatory authorities in the GCC, which was obvious by their reactions to the adverse competitive trends by restricting new licenses; and players wishing to enter the market are being advised to buy existing licenses (E & Y, 2011).

In such, this paper will provide an overview of the insurance industry in Saudi Arabia and the regulatory instruments that operates under the Saudi Arabian Monetary Agency (SAMA), with a brief on the situations of the licensed insurance companies in the Kingdom. This paper will also compare SAMA's regulations and standards for insurance with international ones for better protections for policyholders. Such comparisons been consolidated with the empirical findings of four papers that aims to overview the opinion of policyholders who participate in the takaful funds of several TOs in Saudi Arabia. Hence, the current paper will also provide information and data on the Saudi insurance market growth rate and financial performance. Hence, this paper is organized as follows: section 2 highlights the Saudi Insurance Market behaviours. Section 3 reflects some important regulations that been imposed by SAMA. Section 4 presents SAMA's Market conduct and disclosure reforms. Section 5 reflects the research design. Section 6 contextualizes the research findings. Section 7 draws conclusion.

### SAUDI INSURANCE MARKET BEHAVIOURS

Saudi Arabia hosts a number of prominent multinational firms in addition to several domestic players that rival them in size. By April 2009 there were 29 Saudi insurers in the country including 20 that had completed SAMA's licensing process and were publicly listed; 5 were publicly listed but awaiting a license and 4 were neither publicly listed nor licensed. By the end of the first quarter of 2010, SAMA has approved 33 insurance and reinsurance companies, of which 27 were finally licensed to practice insurance and/or reinsurance (SAMA, 2010a). In addition, one insurance company was listed on the Saudi Stock Exchange but it had not obtained a final license yet to offer insurance services. The Council of Ministers also approved the establishment of five other insurance companies, and two more insurance companies were recommended by SAMA to be approved initially, and their license procedures reached advanced stages (SAMA, 2010b). By July, 2011 SAMA has given operation licenses to seven takaful insurance providers to operate in Saudi Arabia (Al Ahli Takaful, SABB Takaful, Wiqaya Takaful Insurance & Reinsurance, Solidarity Saudi Takaful, AlJazira Takaful Ta'awuni, Saudi Takaful insurance, Watani Takaful) (OBG, 2011).

It is vital to highlight the performance of different insurance lines of business, insurance market penetration rate, and the market claim ratio as follows:

#### Performance of Saudi Arabian Insurance Market

Saudi Arabia's insurance sector has been able to weather the worldwide financial crisis well, outperforming a number of other business segments to post consistent year-on-year growth throughout the duration of the global economic downturn (OBG, 2011). The country's insurance sector is now able to play a more significant role in the national economy and enjoys a greater capital position as more local businesses and individuals become aware of and recognize the value of having adequate insurance coverage.

Figure 1: represents the overall insurance business performance, which has been classified by business line. In 2014, the insurance market witnessed a substantial growth rate of 20.8%, with gross written premium (GWP) reaching SAR 30.48 billion compared to a total of SAR 25.24 billion in 2013 (SAMA, 2014). The increases was due mainly to the growing awareness of the importance of insurance and the favorable economic conditions during the year, as well as the compulsory of motor insurance and cooperative health insurance (SAMA, 2010b, SAMA, 2014).

**Figure 1: Gross Written Premiums (2010 to 2014, SAR Millions)**



Health insurance remained the biggest line of business in 2014. Its contribution to total GWP slightly increased from 51% in 2013 to 52% in 2014, followed by general insurance with a

contribution to total business volume decreased to 45% in 2014. Protection and Savings insurance remained the smallest line of business accounting for 3% of total GWP, with an increase in its written premiums by 7% in 2014.

The Health insurance became the most demanded line of business in Saudi Arabia, which accounted for SR 2.8 Billion of the SR 5.24 Billion increase, which represents a 53% contribution to the market’s GWP increase. Protection and Savings insurance remained the smallest line of business accounting for 3% of total GWP, with an increase in its written premiums by 7% in 2014 (SAMA, 2014). More information on specific insurance line of business growth rates can be found in Figure 2.

**Figure 2: Gross Written Premiums by Line of Business (2010 to 2014, SAR Millions)**



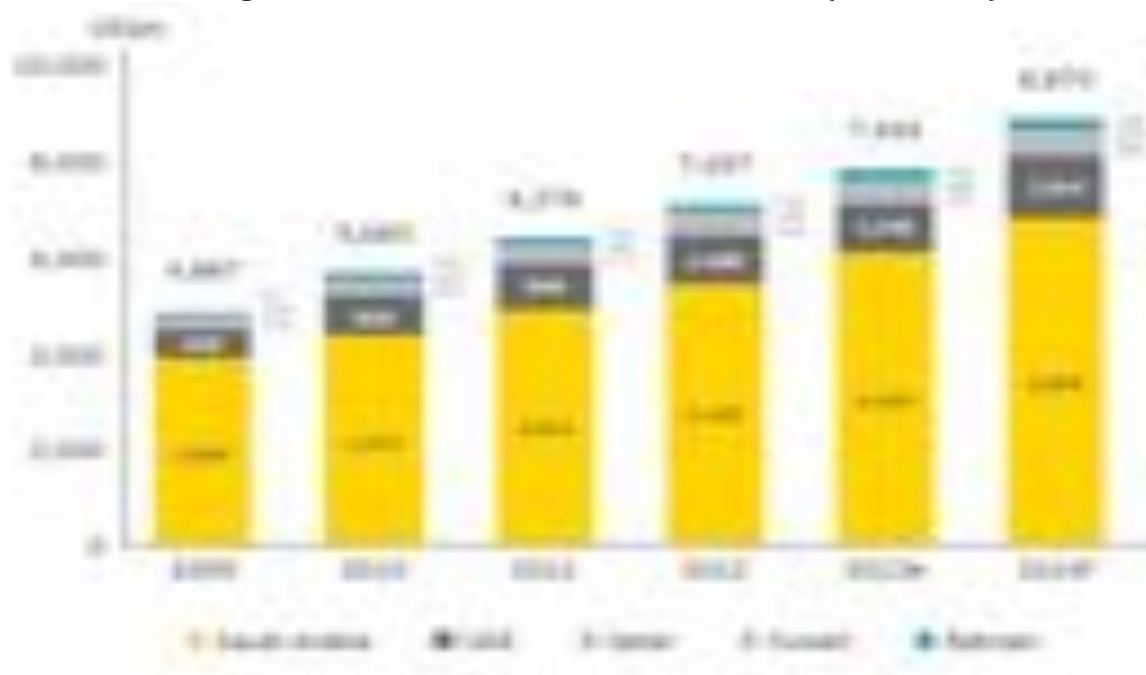
1. Motor and Health insurance accounted for around 77.9 % of total GWP in 2014.
2. Health insurance (compulsory and non-compulsory) accounted for 51.6 % of total GWP in 2014.
3. Motor insurance (compulsory and non-compulsory) accounted for 26.3 % of total GWP in 2014.
4. Aviation insurance GWP reported a decrease by 2.6 % in 2014.
5. Motor Insurance was the fastest growing line of business with growth rate of 26.3 %, followed by health insurance of 21.9 % in 2014.
6. P&S underwritten premiums decreased by 0.3% in 2014.

The impressive rate of growth seen in 2014 looked poised to continue, with Saudi Arabia’s insurance sector believed to be one of the regional industry’s prime movers. OBG (2011) referred to the report released in late August 2010 by the Investment bank Alpen Capital, which indicated that the premium growth across the GCC region would increase by some 20% a year between 2011 and 2015, lifting total premium values from the current SAR 67.5 billion to SAR 138.75 billion. Of this total growth, 75% would be concentrated in Saudi Arabia and the United Arab Emirates.

The report also expected that the Saudi Arabian life insurance sector will have a compounded annual growth rate (CAGR) of 48%, while the non-life sector will grow at a steadier CAGR of 14%. Overall, the Saudi insurance sector is forecasted to expand by a CAGR of 18% by the middle of the decade, reaching a total value of SAR 34.62 billion. Insurance is expected to grow due to the forecasted increase in the country’s construction industry. This is a result of the

government's massive infrastructure investment programme over the next decade, with billions being ploughed into transport, housing, health and education developments. A raft of insurance opportunities will arise from the developments since hundreds of projects will need comprehensive coverage (OBG, 2011). As has been mentioned previously, the Saudi market is dominated by health and motor insurance business lines, which currently account for around 77.9 % of the market's gross written premiums. The protection and savings products, have shown an increase in the GWP from 845 Million in 2013 to 904 Million in 2014, posting a 7 % annual growth, which largely attributed to the introduction of Islamic insurance (takaful) products (SAMA, 2014). Accordingly, while most of the GCC markets have witnessed a slowdown in takaful growth, the exception is the Saudi market which remains strong. Figure 3, shows the gross takaful contributions for the GCC region. Saudi Arabia accounts for the majority of the total gross takaful contribution at 77% with \$ 6.8 Billion, followed by UAE, which accounts for 15% with \$ 1.3 Billion (E & Y, 2014). The rest of the Gulf countries account for just 8% of gross takaful contributions (E & Y, 2014).

**Fig 3: Gross Takaful Contributions in the GCC (US\$ million)**



Source (E & Y, 2014).

Globally, over the recent decade, the double-digit growth of Islamic banking assets has been accompanied by a similar growth of gross takaful contributions across key Muslim developing markets, including Saudi Arabia, UAE and Malaysia. Overall, Saudi Arabia is likely to be the core market for Islamic insurance business, commanding half (50%) of the global contributions as shown in Fig 4. Among the Gulf countries, UAE, Qatar and more recently, Oman, will continue to set the pace for the development of takaful products for the Middle-East and West Asian markets (E & Y, 2014).

**Fig 4: Global Takaful Contributions Forecast 2010 – 2016f (US\$ million)**



Source (E & Y, 2014).

**Insurance Penetration in the Saudi Arabian Market**

Insurance penetration (GWP/GDP) has been growing at a CAGR of 3 % in Saudi Arabia. Over the past five years the increase in the insurance market penetration was attributable to the growing demand for all types of insurance (SAMA, 2014). However, in 2012, insurance penetration decreased to 0.78%, down from 0.85 % in 2011, mainly due to low penetration rate of all kind on insurance (SAMA, 2014).

**Figure 5: Insurance Penetration of Total GDP2, (2010 to 2014, % of Total GDP)**



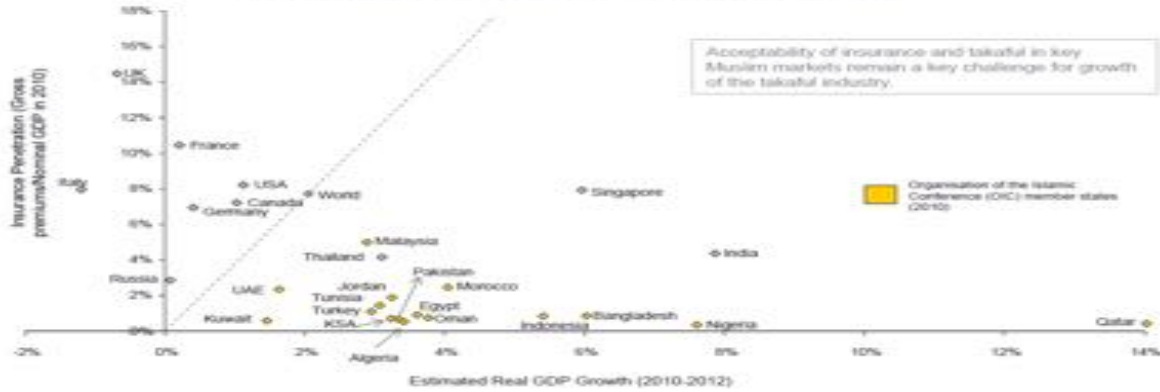
Source (SAMA, 2014).

Total GDP of SR 1,690 SR 2,163 SR 2,727 SR 2,795 and SR 2,821 Billion in 2010, 2011, 2012, 2013 and 2014, respectively (SAMA, 2014).

Despite these impressive penetration figures shown in Fig 5, however, Saudi Arabia remains one of the world’s most underinsured countries. Penetration rates will need to improve considerably if the Kingdom is to reach the levels of more developed markets, both in the region and internationally. Saudi Arabia’s insurance sector still has a long way to go before matching levels in many Western countries. Whereas the Kingdom’s insurance sector is now valued at 1% of GDP, the ratio of premiums to domestic product is well over 10% in France and around 13% in the UK, as shown in Figure 6 (E & Y, 2011). In the longer term, given the

demographics and economic structures, rapid-growth markets such as Turkey and Indonesia offer wider upside potential. In the near to medium term, takaful operators in markets with stable domestic economies, good macro management and sizeable young Muslim demographics such as Malaysia, UAE, Indonesia and Turkey can look toward capturing profitable opportunities in niche segments (E & Y, 2014).

**Fig 6: Insurance Penetration and Real GDP Growth for Select Countries**



Source (E & Y, 2011).

Saudi Arabia, however, remains the largest takaful market in the GCC with contributions of US\$ 1.7 billion in 2007 and US\$ 2.9 billion in 2008 (E & Y, 2009; 2010). Takaful penetration in Saudi Arabia is very low compared to commercial insurance as shown in the table 1 below.

**Table 1: Saudi Arabian Insurance and Takaful Fact Book**

Category	2007	2008
GDP (US\$b)	553.5	577.9
Population (M)	27,537,313	28,190,243
GDP / Capita (\$)	20,100	20,500
Insurance Premiums (\$b)	8.6	10.9
Takaful Premiums (\$b)	1.7	2.9
Insurance Premiums / Capita (\$)	312	386
Takaful Premiums / Capita (\$)	61	102
Insurance Penetration Rate (%)	0.01554	0.0188
Takaful Penetration Rate (%)	0.003072	0.005018

Source: Economic Figures have been taken from Ernst & Young, 2008, 2009; World Development Bank, 2009; insurance and takaful penetration figures calculated by the researcher.

**Claim Ratio**

Total claims paid by line of business in the Saudi Arabian insurance market has reported a straight increase as shown in Figure 7, which increases from SAR 17 billion to SAR 20.3 billion with a growth rate of 19.5 % between 2013 and 2014. Health and Motor gross claims paid grew by 11.2% and 28.6%, respectively compared to 2013 figures. In 2014, Engineering insurance recorded the highest growth rate in gross claims paid, after increasing by 162.7% from SR 213 Million to SR 559 Million (SAMA, 2014). This can be due to the increase number of constructed projects accomplished in the country. Projects such as the new railway connected between the two holy mosques with the rest of the Saudi cities, new airports in Jeddah and Riyadh, economic cities all over the kingdom, etc. establishing such projects comes in parallel with the kingdom vision of building innovative and smart generation.

**Figure 7 Gross Claims Paid by Line of Business (2010 to 2014, SAR Millions)**



Source (SAMA, 2010a).

In 2014, Protection and Savings, which includes takaful insurance, recorded a growth rate in gross claims paid, after increasing by 10.9 % from SAR 297.2 million to SAR 329.4 million. These high-growth percentages in gross claims reflected the relatively high ratios of these lines of business of the total market premiums (SAMA, 2014). Such figures reflect a good awareness among citizens of the importance of family insurance in our daily life. However, takaful claims ratios in Saudi Arabia remains high compared to other countries as shown in Figure 8, due to structured underwriting practice (E & Y, 2010).

**Figure 8: Claims Ratios for Different Jurisdictions**



Source (E & Y, 2010)

### SAMA REGULATIONS

SAMA has issued a number of laws and regulations that aimed to regulate and standardized the Saudi insurance industry. In August 2005, SAMA issued the Cooperative Insurance Companies Control Law, which contains 25 articles. The main headings for insurance companies operating laws include licensing procedures and conditions, the required capital, key personnel responsibilities, auditing and annual reports, the role of the Ministry of Commerce and the role of SAMA in dealing with insurance companies, etc. In the same year SAMA has issued the controlling law that contains 84 articles, which gives an extensive illustration of the previous control laws.



SAMA has also issued a number of specific regulations that address certain issues in the Saudi insurance industry, with the aim of strengthening transparency and accountability and to enable SAMA to enforce better business practices in the Saudi insurance market, some of these regulations are:

- Insurance Market Code of conduct Regulations.
- Insurance Corporate Governance Regulation.
- Risk Management Regulation.
- The Regulation of Reinsurance Activities.
- Insurance Intermediaries Regulation.
- Investment Regulation for Insurance & Reinsurance Companies.
- Actuarial Work Regulation for Insurance & Re-Insurance Companies.
- Audit Committee Regulation in Insurance and/or Reinsurance Companies.
- Outsourcing Regulation for Insurance, Reinsurance & Insurance Service Providers.

Complying with these regulations is mandatory, as the beginning of each regulation document states that non-compliance with the requirements set forth in these codes will be deemed a breach of the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations and licensing conditions and may subject companies to enforcement action.

SAMA also stipulates at the beginning of every regulation that it is the responsibility of the insurance companies to follow internationally accepted best practices, if it is found that SAMA's regulations have not been fully codified. SAMA also asserts in each regulation document that insurance companies must establish appropriate internal controls and procedures to ensure and monitor compliance with this code. SAMA has also continued to work on the link project with insurance companies through an electronic system which enables SAMA to monitor the solvency of insurance companies, the volume of written premiums, the quality of assets and obligations and other financial and non-financial data. SAMA has conducted a supervision and control process over insurance companies which include off-site supervision and on-site examinations. These examinations will ensure the companies' prudential procedures, by conducting regular visits to insurance companies that are expected to be granted licenses and those that have already been licensed (SAMA, 2010b, SAMA, 2005a).

The main objectives of SAMA's directives, laws and regulations, and their restricted approach to comply with their regulations and the international regulations is to provide a protection to policyholders and shareholders, encouraging fair and effective competition, and enhancing the stability of the insurance market in Saudi Arabia (SAMA, 2005b).

### **Sama Corporate Governance Regulations**

The Saudi Arabian insurance industry is following the neo-corporatism philosophy, which is based on the stakeholder theory. This approach requires the government to play a central role in regulating and organizing the social and economic interests of society and to protect the policyholders' rights which was one of the main objectives announced by SAMA. To resolve the issue of agency problems and asymmetry of information, SAMA has issued several regulations: the audit committee regulation, the actuarial work regulation, insurance intermediary's regulation, insurance investment regulation, etc. SAMA has also defined the responsibilities of the key governance personnel, and requires proper insurance information transparency among all the company staff. SAMA also stresses on the importance of education of the employees to bring qualified knowledgeable personnel to bring the service level of the Saudi

insurance market in line with a similar level of the more developed international insurance industry.

In 2016a, SAMA has issued an insurance corporate governance regulation, which addresses the rules and the discretion power of shareholders and stakeholders through a relevant internal systems and policies. The regulation also addresses board of director's rules. Such as imposing the required policies and procedures for disclosure, the items that suppose to be disclosed to public, the risk exposures and risk management. It also highlighted the level of transparency and timely and adequate disclosure of material events relating to the company's financial situation and performance. It's important for the board to provide a comprehensive report that includes the objective assessment of the company's situation and performance. Independency, the company structure shall independent decision making throughout the organization between the board and the management (SAMA, 2016a). The regulation highlight the conflict of interest, so that board and senior management shall not have any interest, directly or indirectly, in the Company's business and contracts, without a prior authorization from the general assembly. The general assembly also responsible for any remuneration modifications might incur for the chairman's and board for their services.

### **Sama Educational Efforts**

Given the importance of education among insurance employees, SAMA identifies minimum educational requirements related to the licensing and examination of a person providing insurance and reinsurance services in Saudi Arabia. SAMA also states that it is the duty of each company to keep their employees' skills and knowledge of the insurance business up-to-date and be informed of the products and services offered by the company, or companies, they represent and the intended use of these products and services (SAMA, 2008).

In an effort to educate the financial and insurance sectors, SAMA has launched the Institute of Banking (IOB), which was established in 1965 as the Institute of Banking Training. At that time, the institute provided conventional academic education to banking sector employees, who achieved a diploma in banking and financial studies after they had successfully passed the courses. However, with the development of the banking business and the introduction of advanced technologies in the banking sector, the IOB has continued its march by offering cognitive solutions to the financial services sector, including banks, insurance and investment companies.

Within the framework of SAMA's efforts to regulate the insurance sector and motivate companies and their employees to adhere to professionalism and practice insurance activity on a scientific and methodological basis pursuant to rules, regulations and instructions in force, SAMA has prescribed the Insurance Fundamentals Certificate Exam (IFCE) as a mandatory certificate for employees at insurance and insurance-related companies. It has to be completed over three years in accordance with a timetable which determines the period during which each category of employees must pass the exam. The exams cover rules and regulations of insurance, code of conduct and the basics of insurance operations. These ensure that any employee handling and making decisions affecting customers business has a minimum level of knowledge and competence in the area of insurance.

### **Power and Activities of Key Stakeholders**

To overcome the asymmetric information problem, SAMA has implemented several regulations and introduced article laws that can control the discretionary powers of the companies' key personnel. SAMA has implemented the fit and proper programme which requires the insurance

and reinsurance services provider's chairman, board members, directors, and senior managers to go through certain procedures to be accepted in the nominated positions. Accordingly, SAMA may object to the appointment of some specific insurance companies Board Members and executive managers. SAMA is putting more restrictions conditions on the nomination of Board of Directors (BoDs). SAMA's permission is required when the insurance company is about to nominate a new member onto the BoDs who previously held a similar position in a company that had been liquidated, or if he was dismissed from a similar position in another company (SAMA, 2005b).

SAMA also restricts BoDs and/or executive officers to hold other sensitive position in the company. For example, SAMA prohibits insurance companies BoDs and/or executive officers from being members of the insurance company audit committee; they are also prohibited to act as responsible actuary, independent actuary, work for any actuarial service company. BoDs are also not allowed to hold similar position in other insurance companies (SAMA, 2005b).

SAMA (2005a: 4) states that, 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".

These rules put the burden on the key personnel of the company to act in an honest manner to protect and respect the policyholders' financial benefits. Violating these rules and regulations can result in the suspension or dismissal of any board member or employee held responsible for such violations (SAMA, 2005b). Accordingly, SAMA requires insurance companies to give a report within 45 days from the end of each year and provide the Agency with the names of members of the BoDs, managing directors, general managers, senior managers in all branches and affiliates and foreign representative offices, including the names and current positions and dates of appointment and the number of years of service in the company. The report also includes their compensation rates in the company (SAMA, 2005b). In terms of shareholders' power and activities, SAMA has limited the concentration of ownership in the insurance companies. SAMA requested companies to notify them of the ownership of any shareholder who owns 5% or more of the company shares through a quarterly report (SAMA, 2005b).

### **The Audit Committee Regulation**

SAMA has issued a draft of its audit committee regulations for insurance and reinsurance companies. Among key reforms in the new regulation is the creation of audit committees by all insurers and reinsurers operating in Saudi Arabia. The newly established audit committees will be required to submit reports and recommendations directly to SAMA and to the company BoDs. Companies must maintain adequate records to demonstrate regulation compliance (SAMA, 2011a). On the other hand, the audit committee must have a degree of independence and should consist of at least 3 and no more than 5 members. However, there are certain conditions applicable to being member of the committee (SAMA, 2011a):

- i. The committee member should not be an executive director or manager of the company, with a majority of non-board members.
- ii. The committee member should not be a member of the BoDs or Audit Committee of any other company operating in the insurance sector and he is not entitled to be a founder of any similar companies.
- iii. The committee member should be familiar with financial issues, accounting, financial reporting and insurance companies' audits.
- iv. The company chairman of the BoDs should not be a member or president of the Audit Committee.

The term of the committee is for three years, and the BoDs is entitled to renew the term of the committee or one of its members, after obtaining SAMA's permission in writing for another three-year term and for one time. However, SAMA is entitled to dismiss a member or members of the Audit Committee in case of any violation of this Regulation or violation in the law on supervision and its Implementing Regulation (SAMA, 2011a).

The Audit Committee has certain tasks which include monitoring the performance and implementation of the internal control systems of the company. It should also ensure the effectiveness and efficiency of those systems, verify the implementation of internal control decisions and actions, and verify compliance with SAMA's regulations and its implementations, other applicable laws, regulations, and instructions in addition to the requirements set forth in this regulation (SAMA, 2016c). The committee has the task of reviewing the actuary and the external auditor's reports and suggestions and then submitting a recommendations report to the BoDs and to follow up with the BoDs recommendations. The committee has been given an authority to directly contact all employees, committees, and legal consultants, internal and external auditors in the company's head office and/or branches, in addition to the other stakeholders. It also has the right without the BoD's approval to check all registers and documents (private and confidential) and regulations to perform its activities (SAMA, 2011a: 8).

To have an effective Audit Committee, SAMA requires insurance companies to structure two departments with one main purpose, which is to provide the committee with the required information they need. The first department is the Compliance Department and is considered as an independent department that reports to the Audit Committee on technical matters and to the Chairman of the BoDs administratively. Its mandate is to report any violations of the laws, by verifying the company's compliance with the laws, regulations, and instructions imposed by SAMA (SAMA, 2011a). The Internal Audit Department is the second independent department that reports to the Audit Committee on technical matters and to the Chairman of the BoDs administratively. Its mandate is to set the audit action plan for the company, to monitor the company's performance through evaluating and verifying the operations to ensure that there are no financial or non-financial violations of the company's internal systems, particularly to the policies and procedures related to the company's different activities (SAMA, 2011a). Appointment of the managers of the two above-mentioned departments is conducted by the company BoDs after referring to the recommendations raised by the committee after obtaining SAMA's approval. The committee is also responsible for recommending a proper actuary and external auditor to the BoDs after obtaining SAMA's approval.

### **The Actuarial Work Regulation**

SAMA has issued the Actuarial Working Regulation to establish procedures for appointing two important kinds of actuaries, the Responsible and the Independent actuaries, and define their roles and responsibilities. The regulation will promote high standards of actuarial practices within the Saudi insurance market, since the insurance company shall ensure compliance with the required actuarial duties and reports. Otherwise, SAMA will appoint an actuary at the company's expense to undertake the actuarial duties (SAMA, 2005b, and 2011b).

To give more accuracy to the actuarial works in the Saudi insurance market, SAMA has assigned a role to the Independent Actuary to review the work of the Responsible Actuary to ensure it complies with the statutory requirements and the professional standards (SAMA, 2011b). The Appointed Actuary shall submit an annual report to the Company's Management, Board of Directors and SAMA by the end of the second month of the following financial year.

The Appointed Actuary shall follow the detailed guidelines that SAMA issues from time to time regarding the contents of the annual report (SAMA, 2016b). The external auditor, the company Audit Committee, and the BoDs shall review the independent actuary report to identify any future risks that the company might face. SAMA has to be provided with copies of these reports in a timely manner (SAMA, 2005b). The Responsible and Independent actuaries should hold a designation of a Fellow, have a prior experience to act as an actuary, have no disciplinary action, suspension or cancellation of membership at any time by the Actuarial Organization of which he/she is a member and should not have been convicted of a felony. Thus, the company shall provide full details of the responsible actuary experience and educational certificates along with the proper and fit form to SAMA. Accordingly, SAMA will notify the company to either keep or replace the Responsible and Independent actuary in case he/she is unqualified to perform the required job (SAMA, 2011b).

Furthermore, the company shall notify SAMA in case of the actuary's termination from the post and the company shall employ or contract another actuary within a period not exceeding 45 days from the date of termination (SAMA, 2011b). Accordingly, SAMA has stated that no one can exercise the duties of actuaries in the Saudi insurance market without obtaining SAMA's prior written approval, in accordance with the requirements of laws and regulations, since the actuary shall be professionally liable for his/her advice and technical services provided to the company (SAMA, 2011b). The Responsible and Independent actuaries have the right of access at all times to the accounting books, other records and documents of the company and be entitled to require from the BoDs and senior management of the company the information and explanations deemed necessary for the carrying out of their duties and the company should provide it to them (SAMA, 2011b). The Responsible and Independent actuaries shall, in the presence of immediate or future risks facing the company, and/or if the company breached the provisions and laws of SAMA or other international insurance laws and regulations and/or if the company has not allowed them to perform their duties, submit a report on an urgent basis directly to the company's BoDs. The BoDs shall examine the report and recommend corrective actions, and forward all related information to SAMA within ten working days after receiving the actuary report (SAMA, 2011b). Furthermore, if the Insurance Company writes Medical Expenses products and Motor products, then the Appointed Actuary shall submit an annual Pricing Report to the Company's Management, Board of Directors and SAMA by the end of the fifth and sixth month respectively of the following financial year. The Appointed Actuary shall follow the detailed guidelines that SAMA issues from time to time regarding the contents of the pricing report (SAMA, 2016b).

### **Sama Claims and Indemnities Handling Procedures**

As an effort to satisfy policyholders' losses, SAMA identifies certain procedures for proper claims and indemnities. Insurance companies in Saudi Arabia should set up a claims department with procedures for accepting policyholders' claims, claims evaluation and processing (SAMA, 2005b; SAMA, 2008). The claims department must respond to the policyholders' claims in a prompt manner. Thus, the insurance company should provide adequate guidance to the insured customer by filling in an information form which will include the claims of the beneficiary under a protection and savings policy. Upon filling the right form the company shall notify the policyholder of the receipt of the claim, and informing the policyholder of any missing information and documents within 7 days from receiving the claimant's application form. The insurance company shall also update the policyholder about the progress of the claim request at least every 15 days (SAMA, 2008). When necessary the insurance company shall appoint a loss adjuster to conduct a reasonable investigation of the claim within a time period not exceeding 10 days, and the insurance company shall notify the customer of such an appointment within 3 working days. Accordingly, the insurance company

shall notify the policyholder in writing of the claim acceptance or refusal promptly after completing the investigation with the reasons for that (SAMA, 2008).

In case of disputes about the claim, the insurance company shall explain to the policyholder how to fill a dispute form; by filling the dispute form the complaint will be escalated to the claims committee (SAMA, 2008). The requirement for a claims committee was established by the Edict of the Council of Ministers on a recommendation of the Minister of Commerce, with an objective to resolve disputes arising between insurance companies and their customers or between the company and other companies when they subrogate the policyholders and settle violations of supervisory instructions issued to insurance companies. The committee consists of three specialized members, one of whom, at least, must be a legal consultant (SAMA, 2005a).

### **Policy Cancellation**

An important issue that can create difficulty to policyholders is the lack of proper ways to cancel an insurance contract or not having proper channels to leave the company whenever policyholders no longer like the service or the products presented by the insurance company. To tackle this problem SAMA indicates that the insurance company should include cancellation terms that are fair and reasonable to customers and are appropriate with regard to the product. The cancellation conditions must be clearly stated in the policy contract, with a description of the premium refund due to the policyholder's cancellation of the policy and when it would be payable (SAMA, 2008). The insurance companies shall not cancel a valid insurance policy except for conditions stated in the policy cancellation clauses, and the company shall provide credible reasons for denying, cancelling, and not renewing the policyholder's insurance policy (SAMA, 2005b). However, when a cancellation occurs the company shall refund the premium on a pro-rata basis (SAMA, 2005b: 17). The insurance company shall notify the policyholder in writing with cancellation notice requirements and period, where the period shall be afforded to the policyholders with a minimum of 30 days (SAMA, 2008). However, the policyholder may cancel the insurance policy and recover part of the paid premium, provided there are no unpaid or outstanding claims (SAMA, 2005b).

On the other hand, SAMA has identified a certain timing period for policyholders to test the suitability of the insurance contract to suit his needs. The insurance company shall provide at least 21 days from the date of delivery of the insurance contract for the policyholder to review the contract to assess its suitability and whether it provides the benefits described (SAMA, 2008).

### **Brokerages and Intermediaries**

SAMA has issued the Insurance Intermediaries Regulations in (2011c) which states that non-compliance with this regulation may subject intermediaries to enforcement actions (SAMA, 2011c: 5). SAMA stresses that the intermediaries shall act in an honest, transparent and fair manner to fulfill their obligations towards policyholders and the insurance company, and where these obligations have not been fully codified intermediaries should abide by internationally accepted best practice. SAMA also stresses that the intermediaries shall have proper knowledge, training and enough experience (SAMA, 2011c).

SAMA also identifies the duties of intermediaries which are to communicate all relevant information including coverage details, conditions, exceptions and restrictions of the insurance policy to the customers in a timely manner, and to ensure that customers are aware of the commitment they are about to make to enable them to make a suitable decision. Hence, intermediaries will have the burden to take all the necessary measures to ensure that the

customer fully understands the type of service being offered and to ensure that the policy proposed is suitable for the customer's needs. Intermediaries shall advise on the matters within their field of expertise and seek or recommend specialists if necessary, to identify and address conflict of interest to ensure fair treatment to all clients (SAMA, 2011c). In another regulatory document, SAMA (2005b) identified the duties of intermediaries to provide customers with comparisons in terms of price among several products, premiums paying mechanism, services fees charged and additional fees that might be encountered, guidance of the claim and proper handling process.

### **Investment and Surplus Distribution Disclosure**

In an effort to regulate the investment technicalities and administrations of the Saudi insurance industry and to protect stakeholders' financial benefits, SAMA (2011d) has issued the investments regulation. In this regulation SAMA has stressed the importance of the insurance company to adopt an investment policy that complies with the SAMA regulations. All insurance companies operating in Saudi Arabia shall establish an investment policy and submit the policy to SAMA on a quarterly and yearly basis for approval. The investment policy shall include the company's investment strategy, rationale for asset allocation and values, investment management and governance structure, segregation of investment assets with described details of assets classes, policyholders' and shareholders' funds segregation, asset portfolio testing and valuation analysis, investment performance measurements, audit and internal procedures to control investments procedures and encountered investments risk. SAMA stresses the importance of communicating the investment policy to all company departments and staff members for transparency and easiness of information transference among the whole of the employees. SAMA also requires that the insurance company assign a qualified and expert employee who will be responsible for implementing, conducting, monitoring, controlling and reporting investment activities.

SAMA regulation maintains that the insurance company shall have an effective disclosure system to reflect investment qualitative information to the public in general and to policyholders in specific. The company disclosure system shall reflect investment performance management, assets historical cost, methods used to monitor performance, investments assets classes' criteria, expected future return and cash flow, and expected expenses. Insurance companies are also required to disclose specific information about each assets class, for example if the investments portfolio includes sukuk or bond security assets, properties assets, equities/securities assets, etc. The company shall also break these assets down into small classes. In the case of bond security assets, the company shall break it down by government, semi-government and corporate securities with its rating percentage and maturity date. SAMA has also classified the percentage of the investments portfolio assets class, in accordance to the type of insurance activities, general, protection and savings (which includes family takaful) as per Table 2:

**Table 2 Assets classes’ percentages in the investments portfolio: General Insurance and Protection and Savings Insurance.**

Investment Type	Percentage for General Insurance	Percentage for Protection and Savings Insurance
Saudi Authorized Banks	20% maximum	10% maximum
Saudi Government Bonds	20% maximum	10% maximum
Saudi Riyals Denominated Investment Funds	10% maximum	15% maximum
Foreign Currency Denominated Investment Funds	10% maximum	10% maximum
Foreign Government's Bonds (Dove A)	5% maximum	5% maximum
Bonds Issued By Domestic Companies	5% maximum	5% maximum
Bonds Issued By Foreign Companies	5% maximum	5% maximum
Equities	15% maximum	15% maximum
Real Estate in Saudi Arabia	0%	5% maximum
Loans Secured by Real estate Mortgages	0%	5% maximum
Loans Secured by Policies Issued by the Insurer	0%	5% maximum
Other Investments	15% maximum	15% maximum

**Source: SAMA (2005b)**

SAMA prohibits investments activities in certain assets classes without its permission i.e. in derivatives, structured products, hedge funds, deposits with foreign banks, private equity investments and any off-balance-sheet instrument. Furthermore, SAMA enforces the role of specialists involved in running the company investments activities. A number of key investments personnel are identified by SAMA that have a direct and/or indirect relationship with the company investments activities, such as BoDs, investments managers, investments committee, actuary, audit committee, the role of BoDs, investment committee and senior management in overseeing, and being accountable for, investment activities. The financial statements that are presented to SAMA include a determination of the earned premiums and other insurance operations revenues with the determination of the incurred indemnification. The company presents the obtained surplus distribution by making a difference between the total incurred premiums and indemnification, less the marketing, administrative, technical provisions, and other general operational expenses (SAMA, 2005b).

The insurance company shall also indicate the net surplus figures, by adding the investment return of the policyholder’s invested funds, and subtracting the general expenses related to the policyholder’s portion of the investment activities, where 10% of the net surplus shall be distributed to the policyholders directly, or in the form of reduction in premiums for the next year, the remaining 90% of the net surplus shall be transferred to the shareholders’ income statement (SAMA, 2005a, 2015). Furthermore, 20% out of the 90 % of the net shareholders’ income shall be set aside as a statutory reserve until this reserve amounts reaches 100% of the paid capital. Hence, SAMA is stressing the importance of documenting and disclosing the mentioned surplus distribution mechanism to the public, and SAMA’s written approval of the company surplus distribution mechanism will be based on the accuracy of the insurance company in achieving the required percentage for policyholders’ net surplus distribution and timing (SAMA, 2005b, 2015). Thus, the company should inform policyholders who are not entitled to the distribution of surplus (SAMA, 2015). As SAMA (2015) has indicated that the insurance company should calculate the ratio of the gross claims incurred over the gross earned premiums. The company should excluded policies with ratio of 70% or above from surplus distribution.



### **SAMA'S MARKET CONDUCT AND DISCLOSURE REFORMS**

Market conduct as a term refers primarily to the way insurers deal with policyholders whether directly or through intermediaries; it also covers other market players such as investments managers (Casey, 2009). SAMA pays a lot of attention to market conduct as is apparent in its regulations which state the following at the beginning of each issued regulation:

Insurance companies operating in Saudi Arabia shall act in an honest, transparent and fair manner, and fulfil all of their obligations to customers, which they have under the laws, regulations, and SAMA guidelines. Insurance companies should not unfairly discriminate between customers; treatment should not differ based on customer race or gender and insurance companies shall take a reasonable measure to identify and address conflicts of interest to ensure fair treatment to all customers.

An example of good market conducted by SAMA is fair pricing of an insurance policy, which states that insurance companies shall provide SAMA with the justifications and the basis used in setting the insurance policies prices. The insurance policy prices shall be fair and reasonable in accordance with the company's underwriting guidelines and appropriateness to the risks undertaken by the company (SAMA, 2005b).

#### **Disclosure of Information to Customers**

One of the IAIS (2011), core principles is ICP 20 that deals with Information, Public Disclosure and Transparency towards the market. In line with ICP 20 principles of IAIS, SAMA has affirmed that the insurance company shall communicate all relevant information to customers in a timely manner to enable them to make informed decisions, hence, companies must take reasonable measures to ensure the accuracy and clarity of the information provided to customers and make such information available in writing (SAMA, 2008).

The wording of the document shall use simple language and sentences, and printed in clear, readable text, with no fine print. The policy shall include a disclosure statement indicating that the policy contract is the entire contract. The policy should reflect the coverage period, and coverage descriptions and limits, deductibles and retentions, insurance rates and premium amounts, basis of premium calculation and the amount of commission paid under the policy (SAMA, 2008). The policy shall also give a description of the insured's duties after a loss has been incurred, and description of the claims and dispute handling procedures (SAMA, 2008). Furthermore, the insurance company shall also notify customers promptly of any changes in the disclosures or conditions made to the customers at the time of entering into the insurance contract. This includes changes in the company's' contact details and changes in the claims filing procedure (SAMA, 2008).

The annual statements are considered vital pieces of information to policyholders. Accordingly, the insurance company should provide an annual statement to their policyholders to include the projected amount received at the policy period, with the current sum insured, total premiums paid in the previous year, while the insurance investments policy should show the value of the units in each fund (SAMA, 2008).

Another important disclosure issue is policyholders' rights whenever an insurance company is planning to cease their operation in Saudi Arabia. Accordingly, SAMA has requested insurance companies to provide evidence that they have fully discharged their obligation to the policyholders, and they shall provide evidence that they kept aside an adequate reserve to meet their obligations toward the policyholders. The insurance company shall also transfer all policyholders' policies in force to another company. Insurance companies shall also announce

their intention to cease their insurance services in two local newspapers, and policyholders shall file their objections to SAMA within a period not exceeding three months from the publishing date of the notice (SAMA, 2005b).

### **RESEARCH DESIGN**

Takaful participants are considered the main source of accumulating surplus in the takaful fund as they are the main stakeholders and their equity consists of ownership of the underwriting activities and the investment funds. As such, they have a claim on assets of these funds in case of liquidation and they are entitled to have their claim paid if there are enough underwriting funds to finance payout. They are also entitled to share in the distribution of any investment and underwriting surplus. However, the only right that participants can exert on the takaful scheme is to vote with their feet by discontinuing their contractual relationship with the company in case of dissatisfactions. Accordingly, as Saudi Arabia remains the largest takaful market in the GCC, takaful participants in Saudi Arabia were identified to be the main research population for this study. A comparison had been made in this paper between SAMA's regulations and standards for insurance with international ones for better protections for policyholders. Such comparisons have been consolidated with the empirical findings of four papers that aim to overview the opinion of policyholders who participate in the takaful funds of several TOs in Saudi Arabia. The targeted participant's populations were clients of all TOs in Jeddah, Saudi Arabia, since a number of large TOs have their headquarters in Jeddah. The researcher, with the support of an 8-survey distributor team, has managed to distribute the questionnaires among 9 branches of 3 TOs in Jeddah. The targeted participants are those with a family takaful policy. Thus policyholders are expected to have a long-term contract with the TOs and expected to have periodic financial returns (Underwriting Surplus & Investment Return). The participants should not possess takaful contracts that belong to corporations, i.e. the takaful contracts are between the TOs and the participants' directly. Therefore, questionnaire was chosen as the method by which the survey was completed. Questionnaires are a useful tool for investigating patterns and trends in data and are frequently used with success in management, marketing and consumer research (Easterby-Smith et al., 1991). Most of the survey questionnaire was designed with close-ended type questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents, especially when using a phone-call approach. A drop-off of a self-administered survey questionnaire and telephone calls techniques were used to collect participants' responses. Accordingly, a total of 500 questionnaires were distributed, of which 420 completed questionnaires were received, where 120 questionnaires were rejected, leaving 300 completed and usable questionnaires for the research, yielding a usable response rate of 60 %. The responses yielding a usable rate reflected the success of using these types of questionnaires to attain the aims and objectives of the study. The survey were based on the researcher's readings of comprehensive topics, which address several researchers suggestions and findings and are based on the imposed policies and standards by the international takaful and insurance regulators such as AAOIFI, IFSB, IAIS, OECD, etc. These policies and standards have one main goal which is to provide proper protection to insurance policyholders, whether the insurance contract is Islamic or conventional. These policies and standards are aimed towards participant protection which will be achieved by satisfying customer perceptions, needs, wants and preferences which in a way enhance customer satisfaction levels. In terms of policies and regulations, great emphasis was noticed towards satisfying participants' desires to gain financial return and to strictly comply with the Shari'ah rules.

## CONTEXTUALISATION OF RESEARCH FINDINGS

This section compares the Saudi insurance laws and regulations as assigned by SAMA with the international insurance regulatory standards. Comparisons will be supported by reflecting the results of four different papers that been published under the author name previously. These papers were focuses on participants' perceptions, knowledge, preferences and satisfaction. Such approach will be used to consolidate the findings' conclusions with one main objective, to protect the rights of participants who contributed to the takaful fund. This is to be used to encourage SAMA to establish special takaful directives devoted for takaful companies operating in Saudi Arabia. Accordingly, this section will be sequenced into subsections according to some issues that considered necessary for the protection of insurance participants.

### Corporate Governance

An important issue to mention here is that SAMA has never addressed takaful insurance or addresses a Shari'ah Governance issue in any of its directives; they often refer to cooperative insurance companies. Accordingly, the following discussion will address some important points which might affect participants' rights in receiving financial and social benefits.

SAMA has issued a number of corporate governance regulations to strengthen the Saudi insurance market, some of which were directed towards the stakeholders. SAMA has identified the role of BoDs, actuaries, auditors and intermediaries, to provide the required protections to the policyholders. However, SAMA has not put in place any obligatory rules to guide the insurance companies to structure a corporate governance framework that specifies the strategic, operational roles, responsibilities, functions of all organs of the firms including but not limited to the BoD's and its committees.

It is preferable if SAMA develops its own insurance corporate governance system in accordance with the economical and political situations surrounding the Saudi financial market. Each organization should develop its own corporate governance model that caters for its specific needs and objectives (OECD, 2004; IAIS, 2004; IFSB, 2008, 2009a). The model should put in place a balance of governance mechanisms that satisfies all stakeholder parties i.e. shareholders and participants. Such a balanced environment will create a good and strong culture of governance that enhances homogeneity and effective information flow among all stakeholders (IFSB, 2008). Hence, the results of Alnemer (2015a) had shown that TOs operated in Saudi Arabia has no effective disclosure mechanisms. Since, participants' were asked to clarify whether the company has a disclosure mechanism to disclose participants fund benefits, such as investment return and underwriting surplus. Participants would be eager to monitor their fund's financial performance because their expected profit will be directly or indirectly influenced by the company's investment activities which rely on company effort towards managing their assets. Surprisingly, 276 (92%) participants answered 'No' which means that takaful operators are not making them aware of a framework which would enable them to monitor their fund performance. Furthermore, 191 (63.7 %) participants, answered with 'No' when they were asked to clarify whether takaful operators disclose an approach to distribute investment returns among them. Participants were also asked to clarify whether the company updates them on different fatwas that have been made by the Shari'ah board. The participants responses were quite similar, such that 35.0 % and 10 %, respectively of the total participants stated that they 'agree' and 'strongly agree' with the notion, while 40.7 % and 1.7 % stated that they 'disagree' and 'strongly disagree' respectively with it.

A sound corporate governance system should establish a connection between directors, managers, employees, shareholders, customers, creditors, and suppliers (Kaplan and Norton,

2000). By establishing such healthy relationships between insurance company stakeholders, the problem of culture manipulation and information concealment will be minimized if not eliminated. It is recommended that SAMA identify a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Accordingly, on Alnemer (2015a) participants were asked to clarify if the company had disclosed the percentage amount of investing some of the participants fund into the shareholders equities; accordingly, 178 (59.3 %) of participants, responded in negative. Participants were also asked to identify whether the takaful company had disclosed shareholders' activities on participants' underwriting surplus and a large number of 289 (96.3 %) participants responded 'no'. Participants were also required to clarify if the TOs had disclosed the BoDs decisions regarding the participants' fund and 266 (88.7 %) participants replied 'no'.

### **Shari'ah Corporate Governance System**

SAMA in its first article on the supervision of the cooperative of insurance company's laws' has stated that the insurance business shall be operated in accordance with the principles of Islamic Shari'ah (SAMA, 2005a: p. 1).

SAMA is also a "full member" of the Islamic Financial Services Board (IFSB) organization, which entitled SAMA to receive several benefits including, (i) technical assistance, (ii) participate in the IFSB awareness programme, (iii) participate in the development of the IFSB prudential standards, (iv) receive complimentary first-hand copies of the IFSB exposure drafts and be invited to comment on them, (v) receive complimentary printed copies of the IFSB publications such as standards, guidelines, surveys etc.

Despite the membership of SAMA in IFSB and the fact that SAMA insurance law is in faith adhering to the Islamic principles, there is no single directive devoted to Takaful insurance, nor restrictions on certain assets portfolio that go against Shari'ah principles, nor directive on the rules of the Shari'ah supervisory board (SSB) and/or the insurance internal Shari'ah departments. Accordingly, it is preferable if SAMA identifies for insurance and takaful companies the methods of conducting activities in accordance with Shari'ah principles. It is also recommended that SAMA identifies the formation of the in-house religious advisers (SSB) with their roles and responsibilities as well as the roles and responsibilities of the Internal Shari'ah Review Audit (ISRA) and the Internal Shari'ah compliance unit/department (ISCU) and their relationships with the SSB members. Accordingly, the results of Alnemer (2015a) clarifies whether TOs had fulfilled their desires for Shari'ah compliance in all transactions. In the first question participants were asked whether the company had presented an annual Shari'ah compliance report to them and 246 (82 %) of participants answered 'no'. Secondly, participants were asked if the company disclosed the method and basis of the Shari'ah method used to allocate underwriting surplus to which 290 (96.7 %) of participants answered 'no'. The third question participants were asked was whether the company disclosed the criteria used to scrutinize investment portfolio and 278 (92.7 %) of participants answered 'no'. Participants were also asked if the company disclosed the purifications technique used on the participants fund investment assets and 239 (79.7 %) of participants answered in negative. However, participants answered this question differently to the others. When asked to clarify if the company had disclosed their commitment to Shari'ah compliance when dealing with the participants fund, 257 (85.7 %) of participants answered 'yes' which is not considered surprising given that every financial institution that offers Islamic financial products is supposed to clearly announce their Shari'ah compliance commitments to the public.

Another vital issue is the successful efforts exerted by SAMA in simulating the international advanced insurance market by formulating the actuaries work. However, SAMA has ignored vital rules of the actuaries work, that the actuary and the Shari'ah Board should be in charge of finding proper investments contracts to run participants' funds (either by mudaraba, wakala), setting wakala fees for investments management or any other combination, and they should set and advise of the fee structure and the profit-sharing ratio on the investment management between participants and the operator. The actuary is also responsible for allocating and approving the takaful benefits to participants in the family takaful business such as distribution of underwriting and/or investment profit. The collaboration between non-executive directors, Shari'ah scholars, actuary and/or participant's representative should provide adequate protection for takaful participants by monitoring the reserve and distribution of underwriting and/or investment profit (IFSB, 2009a). Accordingly, it is vital for SAMA to link the actuaries work with the principles of Islamic laws to satisfy takaful participants' goal of contributing to the takaful fund. It is recommended that SAMA conduct a research study among participants to find out their preferences to have a representative on the TOs' management as it has been suggested by IFSB.

### **Underwriting Surplus Distributions**

As mentioned earlier in this paper, SAMA in its directive called the "Implemented regulations" Article 70, mentions that the surplus distribution should be conducted as 10% of the net surplus distributed to the policyholders, the remaining 90% of the net surplus should be transferred to the shareholders' income statement. Furthermore, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital (SAMA, 2005b). While AAOIFI Shari'ah standard No. 26 (5/5) of 2007 states clearly that takaful surplus belongs to participants only. Therefore, surplus can only be distributed to the participants based on the participants' donation percentage share. In Saudi Arabia, where the majority of the TOs are using the wakalah model to operate the takaful scheme (AlJazira, 2008; SAAB, 2009; AlAhli, 2010), contradiction arises with SAMA instructions as the TO in the wakalah operational mechanisms is considered an agent to run the underwriting and investments activities. The TO should not share underwriting surplus with participants and they have only four sources of income and surplus is not one of these sources. Accordingly, on Alnemer (2015a) participants were asked to clarify whether the company discloses their policy and procedures for handling participants' surplus from underwriting activities. Surprisingly, 204 (68 %) participants answered 'no' to the question. Participants then asked, whether the company discloses the conditions that allow them to receive underwriting surplus to which 290 (96.7 %) of participants responded 'no'. Participants were also asked whether the company disclosed the uncollected underwriting surplus and again 290 (96.7 %) of participants answered with 'no'.

Furthermore, SAMA seems in favour of implementing the net underwriting surplus instead of the gross underwriting surplus (SAMA, 2005b) which implies that the investment income is ploughed back into the takaful fund and the takaful company shares with the participant the surplus from the takaful fund (Ali and Odierno, 2008; Asaria, 2009). Following SAMA's surplus distribution instructions, therefore, reduces both underwriting surplus and investment return for participants, while shareholders get the ultimate benefits as per SAMA instructions. Therefore, it is preferable that SAMA states the operational scheme of the wakalah model, in accordance with the standards set by international organizations such as IFSB or AAOIFI, since the above-mentioned TOs are claiming that they are running their takaful scheme with the wakalah model. However, the TOs in their public reports or websites never highlight any specific percentage of surplus distribution. In other words, to be fair to participants TOs should distribute underwriting surpluses to participants as per AAOIFI. Hence, on Alnemer (2015a)

participants were asked whether the company discloses the methods used to calculate underwriting surplus; accordingly 269 (89.7 %) participants answered 'no'.

The contradiction of SAMA's rule of limiting surplus distribution to 10% only with the international insurance bodies can create confusion among participants as the results of Alnemer (2015b) had shown that 226 (75 %) participants do not know the difference between net and gross underwriting surplus. Accordingly, it will be recommended that SAMA identifies the best approach to allocate underwriting surplus among participants. The allocation can take place by of the following three ways: pro-rata mode, selective mode, or offsetting mode. This will help the participants as 280 (93 %) of them do not know the conditions of sharing in the underwriting surplus (Alnemer, 2015b).

### **Shareholders' Power and the Availability of Qard Hassan**

In some jurisdictions, such as in Malaysia, TOs are obligated to give an undertaking to the regulator to provide a qard facility to be drawn upon in the event of a deficit of a takaful fund (Hussain, 2009). One way to cover a deficit is by deducting the reserve amount from the takaful fund namely, claims contingency reserve (CCR). Hence, participants may be asked to pay regularly more than what is needed for the anticipated compensations in a given period and use the extra amount to build up a reserve as back-up capital for extraordinary damages (Archer, Ahmed and Volker, 2009). Alternatively, deducting from the past underwriting surplus can be used to build up a reserve (AAOIFI, 2010). In case the reserve is not enough to cover the deficit then TOs will ask shareholders to provide qard hasan facility to cover the deficit (Tobias, 2009). However, as Shari'ah standards of AAOIFI (2010) state that insurance accounts shall bear all the expenses and fees that relate to insurance activities. Therefore, the higher the expenses paid out from the takaful fund, the lower the surplus will be (Archer et al, 2009).

According, clear instruction should be given by SAMA on the proper procedure that the TOs should follow to recover the shareholders loan facilities used to overcome a deficit in the takaful fund. As mentioned in SAMA's Implemented Regulations directive, 20% of the net shareholders' income should be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital. However, SAMA does not clarify the sequences associated with the shareholders' obligations to cover any deficits in the fund. In other words, it is preferable that SAMA identifies possible scenarios to pay back the shareholders' loan which can be done either by increasing participants' future contributions to the fund or by preventing participants getting any future underwriting surplus or investment return.

Hence, participants were asked on Alnemer (2015a) to clarify whether TOs disclosed the incentives structure and different expenses excluded from the fund. The first question asked about disclosure of incentive structure, to which 278 (92.7 %) of participants answered 'no'. The second question asked participants to clarify, whether TOs had disclosed direct and indirect expenses against the participants' fund and 284 (94.7 %) of participants answered 'no' to the question. Subsequently, participants were asked to clarify whether TOs had disclosed enough information that guaranteed their rights to receiving qard hasan. The question asked whether the company disclosed their eligibility to provide qard hasan to the participants' fund to which 260 (86.7 %) of participants replied 'no'.

SAMA might assert in its regulations and laws that the TOs should identify different types of expenses and management fees that are going to be deducted from the participants' fund, as these might cause future deficits in the participants' fund and prevent participants receiving

underwriting surplus. The results of Alnemer (2015b) show that 298 (99%) participants have no idea about different fees that have been charged by the TOs and 281 (94%) participants have no idea about the situations that causes them to pay additional contributions to the company. It is recommended that SAMA follows AAOIFI standards No. 13, which require disclosure of the basis applied by the company in calculating expenses affecting policyholders' funds such as pre-operating expenditures, reserves, costs of assets used in operations, claims and compensations, etc. On the other hand, there are several acceptable practices that can be exerted by the shareholders to use the takaful fund underwriting surplus and the investment return. However, SAMA did not specify the extent of shareholders' power and limitations on the participants' fund. This can open the door for the TOs to exert more discretion on the participants' fund which might cause dissatisfaction among participants. This is supported by the findings of Alnemer (2015b) which show that 300 (100%) participants do not know if the shareholders are sharing in participants' underwriting surplus and investments returns. Which showed that 167 (56 %) participants have a weak satisfaction level with the participants fund charged fees, encountered deficits and availability of qard (SFDQ) (Alnemer, 2015d). Hence, the findings of Alnemer (2015c) have showed that 205 (68%) participants agree to have the right to refuse shareholders activities on the participants' fund. Accordingly, it's recommended that SAMA follows AAOIFI standards No. 13 which requires disclosure of the bases governing the contractual relationship between policyholders and shareholders.

### **Clear Segregation between Shareholders' and Participants' Funds**

SAMA has clearly stated in the laws on the cooperative insurance directives Article 2, the Implemented Regulations Article 70, and the investment regulations, that the investment policy shall segregate policyholders' funds from shareholders' funds. This is because each type of asset is classified by different objectives and targets, which will require different financial statements. The main objectives are protecting policyholders' and shareholders' interests in terms of ability to meet liabilities and to ensure the business meets the minimum level of capital requirement (SAMA, 2005a; 2005b; 2011a). Despite the fact that SAMA asserts the importance of a clear segregation between policyholders' and shareholders' fund', SAMA did not announce any directives to guide TOs with the proper instructions to separate the two funds.

As one of the main challenges encountered in the takaful business is the hybrid structural scheme with the combination of mutual and proprietary, simultaneously following the principles of Taawun, Tabarru and the prohibition of Riba can raise a conflict of interest. TOs are considered custodians of a takaful fund and they might exert a good amount of discretion to determine the range of products, pricing, terms and conditions of contracts. Additionally conflict can arise due to an agency problem; the separation between the TO and the participants' funds will create asymmetric information and insufficient power for the participants to monitor the TO as a result of lack of representation (Hussain, 2009). Accordingly, it is recommended that SAMA assigns a directive to address the separation instructions in takaful insurance; the directive should clearly give an instruction to separate the assets in the family takaful between Participant Risk Fund (PRF) and those of the Participant Investment Fund (PIF), as well as between the assets of the takaful fund and those of the shareholders' funds.

### **Asset-Liability Matching Framework**

Assets-liability matching management is an important process in protecting policyholders' rights in receiving financial benefits out of their contributions in the takaful fund. As IAIS (2002) asserts that the insurance companies should structure a framework to explain the used type of assets instruments, as well as contingent or intangible assets to reflect the suitability of

the assets to gain profit in the short-term and a long-term time horizon and to reflect the suitability of the assets to work as a strong capital. The framework should explain how quickly the insurance company will be able to liquidate its investments if necessary without substantial loss in value. It should also identify the sensitivities of these investments to fluctuations in key types of market variables such as exchange rate, and equity price indices and credit risks.

SAMA (2008b; 2005b) addresses the importance of assets-liabilities matching management to avoid liquidity risk. However, SAMA did not specify the required assets-liabilities matching procedures, nor identify suitable assets that fit with the takaful principles and model structures which mainly rely on the principles of Islamic laws since investments portfolio assets classes' percentage includes types of assets that contradicts Islamic laws e.g. foreign bonds (SAMA, 2005b). Accordingly, it is recommended that SAMA issues a directive which identifies and classifies the type and percentage weights of the assets that can support the TOs operations.

### **Intermediaries as a Channel for Success Market Conduct & Disclosure**

Market conduct and disclosure matters that, when not implemented, can cause a negative impact on participants' financial and social benefits. Although SAMA has stressed that the intermediaries should have proper knowledge, training and enough experience (SAMA, 2011a), it did not specify the required knowledge and skills needed for the intermediaries - knowledge related to the economic and political situation of the Saudi market. The intermediaries should possess the necessary knowledge about different aspects on Shari'ah to sell a takaful policy. Researchers have a common complaint regarding the lack of training of life insurance salesmen (Gower, 1984).

One of the IAIS (2011) requirements is for the intermediaries to be licensed. Similarly, it is recommended that SAMA enforces the intermediaries to be licensed or at least to possess the Insurance Fundamentals Certificate Exam (IFCE), which has been assigned by SAMA to all insurance employees working in Saudi Arabia and to comply with the UK Financial Services Act 1986, which made it mandatory for intermediaries to comply with the code of conduct. Indeed, the findings of Alnemer (2015b) showed 96 (74 %) out of 129 participants state that the intermediaries who sold them the takaful policy have insufficient knowledge about different issues of takaful principles and insufficient knowledge about the associated Shari'ah knowledge.

SAMA has identified the duties of intermediaries to provide sufficient information to customers in terms of price comparisons, premiums payments, payable fees and expenses, claims required documents. However, SAMA did not touch on the element of human action/intervention when delivering the service. This element is important as it was the first four elements of Parasuraman et al. (1988) five dimensions of service quality.

Finally, researcher are critical about the conflicts of interest that can arise from the commission payments structure by which intermediaries remunerated and the cultural environment in which they work (Mercantile & General Reinsurance, 1993; Gower 1984). Accordingly, it is preferable that SAMA becomes involved in setting up fair amounts of commissions and remunerations for intermediaries by comparing the domestic commission rates with the international advanced insurance market. It is expected that by setting fair intermediaries commission, a good service quality will be delivered to the perspective policyholders.



### **Disputes Settlement Procedures**

SAMA has made a noticeable effort to instruct the insurance companies to fairly treat policyholders' claims and disputes, by structuring a claims department within the company which should settle all policyholders' claims situations by appointing a specialized adjuster. The claim departments should also support policyholders to fill out the dispute form for further compliant investigation by the claim committee.

Despite SAMA's efforts to settle policyholders' claim situations, it has not addressed the importance of disclosing options that policyholders can undertake to resolve the dispute issue with the insurance company. For example, policyholders might have the option to resolve the dispute with the insurance companies with the support of the adjuster. However, if the policyholder is not satisfied with the adjuster's opinions then arbitration might be another option. If still unhappy with the arbitrator decision then the case can be escalated to the Grievances Court for final dispute resolution. The disputes settlement procedures should be available and disclosed to policyholders at all times for fair treatment. The importance of disclosing such information was clearly obvious in the conclusions of the research conducted by Wells and Stafford (1995). They have concluded that a consumer tends to rate service quality higher if they are aware of their right to complain to the regulator. The awareness that a consumer advocate exists may reduce feelings of helplessness, dissatisfaction, or resentment.

Indeed, the findings of Alnemer (2015b) showed that 215 (72 %) participants replied that they do not know which parties they should refer to when a dispute is encountered with the insurance companies. Therefore, it is recommended that SAMA asserts the importance of disclosing the dispute resolution procedures along with the legal bodies to which participants should rely on to resolve their disputes with the company.

SAMA, with the cooperation of the Saudi jurisdiction, should relieve the controlling power of the Board of Grievances on the arbitrations committee. In other words, the arbitration organization should be treated as a separate entity from the Board of Grievances for better judgment diversifications and for policyholders to get the ultimate benefits of using arbitration services as it has wide feature functions. Since the arbitral tribunal cannot execute their judgment on a commercial matter until the Board of Grievances approves an arbitration instrument, the Board of Grievances can at any time be involved in any commercial case is that within the custody of the arbitration board (Ghazzawi et al., 2011). This will eventually limit arbitrators to do their work as has been identified by some of the advanced insurance markets such as in the UK. It is also recommended that SAMA introduce the Ombudsman Service as an important alternative option to resolve policyholders' insurance disputes. The ombudsman service should possess professional expertise in the insurance field to provide a free service to resolve disputes in insurance or other financial services.

### **Disclosure Mechanisms**

SAMA, in its Insurance Market Code of Conduct Regulation, 2008 directive, clarifies that companies should communicate all relevant information with the customer and ensures that such information is provided to customers in writing. SAMA also points out that the company, upon customer request, should provide the customer with the key terms and conditions of the product and service purchased including benefits, claims and complaint procedures, restriction conditions, fund past performance, etc. The above disclosure instructions seem devoted to current customers or customers who are about to buy an insurance policy which is quite beneficial. However, this information should be available for all the general public (and not only on request of current/potential customers) as per IAIS (2011) public disclosure directive which asserts that information should be properly disseminated according to the international

standards and designed in adequate methods and assumptions to bring the attention of policyholders and the public to the relevant information; it also states that the best channels to disclose information to the public is by using the internet.

New customers would like to view different information about the company such as, financial performance, profit and loss statement, fund expenses and fees, policyholders' financial benefits, assets portfolio, assets-liabilities matching process, Shari'ah board and Shari'ah compliance mechanisms, claim and complaint procedures, stakeholders obligations, company market position, board, management and shareholders structure, corporate culture, etc. The current policyholders would also like to review their benefits at the fund, which requires the TOs to provide an effective IT system to serve their desires.

Gow (2000) asserts that some insurers are still stuck in paper documentation, hampering faster communications with clients. This will prevent insurers from making the most from existing customer relationships. Gow (2000) ascertains was quite obvious, as the results findings of Alnemer (2015a) showed that 276 (92%) participants indicated that the company did not disclose ways to let them review their benefits; 287 (96 %) participants indicated that the company did not use the internet to communicate with them; 206 (69 %) participants indicated that the company is communicating with them by letter and 287 (96 %) participants indicated that the company did not communicate with them at all. Accordingly, it is recommended that SAMA encourages insurance companies to let go of the old fashioned paper handling approaches and to establish an active disclosure mechanism that uses the best available IT system to properly disseminate information to the public and to the current customers.

### **Code of Ethics**

SAMA Market Code of Conduct Regulation, 2008 requires insurance key stakeholders to act with integrity, honesty and fair dealing. However, SAMA has not put in place an adequate observation system that can periodically be conducted to monitor the compliance with this code and to effectively address any dishonourable behaviour.

As SAMA demanded (in its first Article on the supervision of cooperative insurance laws) that insurance companies operating in Saudi Arabia should adhere to the Islamic principles, it is recommended that SAMA imposes a social ethical framework for implementation by takaful and insurance companies operating in Saudi Arabia.

The framework should encourage and monitor correct and positive ethical behaviour, such as *ihsan* (goodness), *tawakkal* (trust in God), *amanah* (honesty), *infaq* (spending to meet social obligation), *sabr* (patience) and *istislah* (public interest) (Lewis, 2005). The framework should also mandate that any decision involving more than one party should access and consult on the basis of principles of *Shura* (consultation). Thus directors and senior managers would be expected to listen to the opinions of other executives before making a decision and *shura* members would include, as far as possible, representatives of shareholders, employees, suppliers, customers. Other stakeholders including the community should also play a role in providing mutual cooperation to protect interests as a whole and to stimulate the social wellbeing function for social welfare (Choudhury and Hoque, 2004).

It is recommended that SAMA ensure that the code of ethics is properly implemented by whoever promotes or advertises the insurance and takaful products, such as a conventional

bank with a takaful window, brokers, agents, actuaries, representatives, etc. In terms of investment activities TOs should strictly adhere to Islamic ethical codes.

The framework should ensure that, for the long-term takaful contracts especially family takaful plans where long-term relationships are established between takaful participants and the TO's, an adequate code of ethics and conduct should be observed by the representatives of the TOs' before and after the finalization of the contract; such contracts should contain clear illustrations for better understanding and appreciation by takaful participants who may not be familiar with takaful terminology (IFSB, 2008).

Another ethical practice that can be suggested by SAMA to be implemented by the takaful and insurance companies is to find a way that can improve participants' financial return in long-term contract such as participants who contributed to the family takaful scheme. SAMA can impose the methods used by the Islamic banking to attract participants such as, (i) minimizing shareholders equity to mobilize more benefits to participants, (ii) Profit Equalization Reserve (PER), by matching participants' financial return with other operators in the same industry by setting aside both participants' and shareholders' funds before allocation, (iii) displaced commercial risk, encouraging shareholders to give up part or their entire mudarib share to the participants to motivate them into continuing to place their funds with the bank, in other words TOs' should not ask for a refund for the amount of qard provided to recover a deficit in the takaful fund (Archer, Karim, and Nienhaus, 2009).

### **Service Quality**

Bad practice, callous treatment and poor service design and delivery, have contributed to widespread customer dissatisfaction in the insurance industry (Wells and Stafford, 1995; Friedman, 2001a, 2001b; Cooper and Frank, 2001). Customers are demanding a lot more than the industry has been willing to give, leaving clients frustrated with their services (Robert, 2000). Such malpractices have created a growing distrust of the insurance industry among almost all stakeholder level customers, employees, regulators, shareholders and the public (Darcy, 1996).

Wells and Stafford (1995) call for regulators to seek more sophisticated and accurate diagnostic models for assessing insurer service quality in the insurance industry. Accordingly, it is important for SAMA to adopt a suitable service quality model to measure customer satisfaction levels, by assessing how well customers' needs, expectations and perceptions are being met or exceeding the company's offering. Indeed, the findings of Alnemer (2015c) reflects that the majority of participants have a high level of preferences in that 179 (60 %) participants agrees to be given an opportunity to select the Shari'ah supervisory board, 205 (68 %) participants agree to be given an opportunity to refuse shareholders' activities on the participants' fund, and 224 (75 %) participants want to share with other participants the underwriting surplus whether they made claims or not. It is also recommended that SAMA encourages insurance companies to adhere to customers' expectations and perceptions by implementing a means of scoring satisfaction as a way of improving service quality in the Saudi insurance industry; it will be quite beneficial if SAMA has access to insurance companies' policyholders' satisfaction scoring card, for quick and adequate intrusions timing. The research findings of Alnemer (2015d) report that 152 (51 %) participants have a weak satisfaction level with the participants fund investment return (SIR), and 167 (56 %) participants have a weak satisfaction level with the participants fund charged fees, encountered deficits and availability of qard (SFDQ).

### **Lesson from the Advanced International Insurance Industry**

The FSA in the United Kingdom has worked hard to develop and control their insurance market to provide the required protections to policyholders, especially (with-profits policyholders'), since they have the rights to share in the bonuses generated from the investment activities (similar to participants in the family takaful scheme). One of the FSA reform approach is to educate insurance customers of their rights and obligations, especially after the failure of Equitable Life insurance. Accordingly, the FSA has launched the Financial Capability Steering Group which will examine the approach to consumer education to achieve better public awareness and better policyholder protection (FSA, 2003). Accordingly, regulators should have the burden and the responsibility to inform and educate consumers about the nature of the financial system (Dewing and Russell, 2001). It is recommended that SAMA simulates the FSA programme to educate and enhance policyholders' awareness and knowledge about their rights and obligations in the fund, especially with those participants who possess a life family takaful policy as they have a long-term contractual agreement with the insurance company, which entitles them to receive periodic financial benefits.

The importance of implementing an educational programme among takaful and insurance participants in the Saudi insurance market is supported by participants' responses of the findings of Alnemer (2015b) i.e. 226 (75 %) participants have an overall weak knowledge about the takaful fund underwriting surplus distributions, 262 (87 %) participants have an overall weak knowledge about the takaful fund Shari'ah compliance system, 272 (91 %) participants have an overall weak knowledge about the takaful fund charged fees, encountered deficits and availability of qard, and 237 (79%) participants have an overall weak knowledge about the proper dissatisfaction channels when they are dissatisfied with the TOs' services and products.

Furthermore, it is preferable that SAMA simulate the FSA rules and guidance in relation to treating with-profits policyholders fairly according to the FSA's Conduct of Business Handbook (COBS 20) and the associated Principle 6 (Customers' interests), Principle 7 (Communications with clients), and Principle 8 (Conflicts of interest) (FSA, 2010).

### **Knowledge of Supervisory Authority**

Sound market conduct policies and procedures will not be carried out without having effective supervisors who can encourage insurers to make effective disclosure, by maintaining efficient, fair, safe, and stable insurance markets for the benefit and protection of policyholders (IAIS, 2002). The supervisors will need to have sufficient knowledge about takaful to be able to understand the products with which they are dealing and the significant differences between takaful contracts and conventional ones. The takaful contracts should cover the contractual relationships between TOs and participants, including circumstances of any additional contributions that may be sought and the basis for the distribution of any surplus (Casey, 2009).

It is very important that SAMA enhances their employees' knowledge about the principles and products of takaful insurance according to the different used takaful models. SAMA employees should understand different implications between conventional and takaful insurance. It is preferable that SAMA relies on the already-established standards by organizations such as AAOIFI, IFSB and similar standards as per IAIS to regulate takaful insurance in Saudi Arabia and it will be quite beneficial if SAMA separates the takaful laws and regulations from the cooperative insurance ones as takaful consists of a hybrid structure, with the combination of mutual and proprietary scheme.

## SUMMARY AND CONCLUSION

This paper reflected the ideal policies and regulations and aims to ascertain a proper benchmark that should be used by the TOs in Saudi Arabia to provide the required protection to policyholders. By doing so, this paper has addressed the laws and reforms polices that have been imposed by the main financial regulatory body, SAMA. This paper has shown the development process of the insurance industry in Saudi Arabia and how it has been recently (end of 2003) shifted from an unregulated insurance market that issued no licenses to insurance companies, to an organized and well- controlled insurance market that oversees and licenses all insurance-related business, with certain objectives to protect stakeholders and bring stability to the insurance industry in Saudi Arabia. This paper also presents the recent status of the number of insurance companies operating in Saudi Arabia. A reflection on the Saudi insurance market's current behaviours, in terms of market performance, gross written premium and compounded annual growth rate, claim ratio and the Saudi TOs claims ratio among international takaful markets, has also been provided in this paper.

To consolidate SAMA's role in the controlling and supervising process, the agency has become a member of the International Association of Insurance Supervisors (IAIS). SAMA has also established a project to be electronically linked with the insurance companies operating in Saudi Arabia to enable SAMA to monitor insurance solvency situations. It has also been stressed that a certain qualification level or exam, the Insurance Fundamentals Certificate Exam (IFCE) should be obtained by most of the employees who are working in the Saudi insurance industry, for better market conduct approach. SAMA has also issued a number of reforms regulation and polices that simulate the international insurance organizations standards. Adherence to these regulations is considered mandatory and any breach found may cause SAMA to seize the operation of that company. Regulations are such as Market Conduct Regulations, Intermediaries Regulation, Investment Regulation, Actuarial Regulation, and Audit Committee Regulation. SAMA has made it mandatory for any insurance company operating in Saudi Arabia to establish an internal audit department and to establish an audit committee, to ensure the effectiveness and efficiency of the company performance and verify compliance with SAMA's regulations and its implementations. Insurance companies shall also establish an investments policy to be submitted to SAMA on a quarterly and yearly basis. The policy shall include statements of investments performance, assets segregation of policyholders and shareholders, measurement methods to assess investment performance, measurement of investments risk, etc.

## References

- AAOIFI (1999). Governance Standard for Islamic Financial Institutions No. 1 - Shariah Supervisory Board: Appointment, Composition and Report.
- AAOIFI standard on takaful (5/5). (Manama: AAOFI, 4-5), pp.437.
- AAOIFI (1999), Financial Accounting Standard No. 11: Provision and Reserves.
- AAOIFI (2003). "Accounting, Auditing and Governance Standards for Islamic Financial Institutions". 2003-4. Manama Bahrain.
- AAOIFI (2010). Shariah Standards for Islamic Financial Institutions. Manama: Accounting and Auditing Organization for Islamic Financial Institution.
- AAOIFI. (2004/2005). Accounting, Auditing and Governance Standards for Islamic Financial Institutions", No 12, Appendix E. Manama: Accounting and Auditing Organization for Islamic Financial Institution.
- AAOIFI. (2004/2005). Accounting, Auditing and Governance Standards for Islamic Financial Institutions", No 13, Appendix E. Manama: Accounting and Auditing Organization for Islamic Financial Institution.

AAOIFI. (2007). Islamic insurance in line with shari'ah Standard. No 26 (2). Manama: Accounting and Auditing Organization for Islamic Financial Institution.

AAOIFI. (2007). Accounting, Auditing and Governance Standards on takaful. P.437. Manama Bahrain.

AlAHLI Takaful (2010). Annual Report Board of Directors AlAHLI Takaful Company.At (<http://www.alahlitakaful.com>)

AlNemer, Hashem (2015a). Participants' Perceptions about Takaful Operators Disclosure System: An Empirical Study on Saudi Arabia. *Islamic Finance, Performance and Efficiency*. V3. Gerlach Press. Germany. ISBN: 978-3-940924-12-4.

AlNemer, Hashem (2015b). Participants' Knowledge and Educational Background about Takaful Products & Services: An Empirical Study on Saudi Arabia. *International Journal of Business, Economics and Law*. E-ISSN 2289-1552.

AlNemer, Hashem (2015c). Participants' Preferences & Motivations about Takaful Products & Services: An Empirical Study on Saudi Arabia. *South East Asia Journal of Contemporary Business, Economics and Law*. E-ISSN 2289-1560.

AlNemer, Hashem (2015d). Participants' Satisfactions about Takaful Products & Services: An Empirical Study on Saudi Arabia. *International Journal of Business, Economics and Law*. E-ISSN 2289-1552.

Asaria. M Iqbal (2009). Takaful & Mutuality – A meeting of Minds or a Parting of Ways? International Takaful Summit. Jumeirah Carlton Tower. London.

Bank Aljazeera (2008). Annual Report. Reviewed at: (<http://www.baj.com.sa>).

Bank Aljazeera (2009). Annual Report. Reviewed at: ([www.baj.com.sa/baj](http://www.baj.com.sa/baj)).

Bank Aljazeera (2010). Annual Report. Reviewed at: ([www.baj.com.sa/baj](http://www.baj.com.sa/baj)).

Brenda P. Wells & Marla Royne Stafford (1995). "Service Quality in the Insurance Industry: Consumer Perceptions versus Regulatory Perceptions". *Journal of Insurance Regulation*. Vol. 13 (4). pp. 462 - 477.

FSA (2003). With-Profits Governance and the Role of Actuaries in Life Insurers.

FSA (2010). With Profits Regime Review Report.

Casey Peter (2009). "Supervisory Issues in Takaful: An Overview". Simon Archer, Rifaat Ahmed Abdel Karim, Volker Nienhaus (eds.).*Takaful Islamic Insurance Concepts and Regulatory Issue*. West Sussex.UK. John Wiley & Sons, (pp. 113 - 137).

Choudury, M, A. and Hoque, M.Z. (2004). *An Advanced Exposition of Islamic Economics and Finance*. New York, Edward Mellen Press.

Cooper, R. W., and Frank, G. L. (2001). "Key Ethical Issues Facing the Property and Casualty Insurance: Has a Decade Made a Difference". *CPCU Journal*. Vol. 54 (2): pp 99- 111.

Dewing, Ian P. and Russell, Peter O. (2001). "Corporate Governance - Regulation and Reform: The Actuarial Governance of UK Life Insurers". *Corporate Governance: An International Review*. Vol. 14 (3): pp. 172-180.

Engku Ali and Hassan Odierno. (2008).*Essential Guide for Takaful (Islamic Insurance)*. CERT Publications Sdh. Bhd. K.L. Malaysia.

Easterby-Smith, M., Thorpe, R. and Jackson, P. (2008). *Management Research*. (3rd ed). SAGE Publications Ltd., London.

Ernest & Young, E&Y (2009, 2010, 2011, 2015). World Takaful Report. <http://www.ey.com>.

Friedman, S. (2001a). "RIMS plans to have third quality scorecard. *National Underwriter*. Vol. 105 (April): pp. 03-22.

Friedman, S. (2001 b). "RIMS launches quality process. *National Underwriter*. Vol. 105(19): pp. 03-29.

Friedman, S. (2002). "You can never take CSRs for granted". *National Underwriter*. Vol. 106 (Sept.): pp. 49-50.

- Ghazzawi, Hatem Abbas et al (2011). Saudi Arabian Law Overview: Disputes Resolution. Saudi Legal. At ([http://www.saudilegal.com/saudilaw/19\\_law.html](http://www.saudilegal.com/saudilaw/19_law.html)).
- Gow, R. (2000). "Cashing on B2B". Canadian Underwriter. Vol. 67(4): pp. 42-44.
- Gower, L.C.B. (1984) Review of Investor Protection, Report: Part I, Cmnd 9125, HMSO, London).
- Hodgins Peter and Mark Beswetherick (2009).Saudi Arabia Cooperative Insurance Regulations. Clyde and Co's Middle Eastern Insurance Newsletter.
- IAIS (2002). Guidance Paper on Public Disclosure by Insurers. Guidance Paper No. 4. Available at: ([www.iaisweb.org](http://www.iaisweb.org)).
- IAIS (2003). Insurance Core Principles and Methodology. Principles No. 1. Singapore.
- IAIS (2008). Standards on the use of Internal Models for Regulatory Capital Purposes. Standard No. 2.2.7.
- IAIS (2011). Insurance Core Principles, Standards, Guidance and Assessment Methodology. Available at ([www.iaisweb.org](http://www.iaisweb.org)).
- IAIS and IFSB (2006). Issues in Regulation and Supervision of Takaful (Islamic Insurance). Retrived 12 June, 2009, from <http://www.ifsb.org>.
- IAIS and OECD (2009). Issues Paper on Corporate Governance. Available at ([www.iaisweb.org](http://www.iaisweb.org)) and (<http://www.oecd.org/daf/insurance/governance>).
- IAIS. (2004). Insurance Core Principles on Corporate Governance. Note by the Chair, IAIS Technical Committee .Switzerland.
- IAIS. (2005). A New Framework for Insurance Supervision: Towards A common Structure and Common Standards for the Assessment of Insurer Solvency.
- IAIS. (2011). Insurance Core Principles, Standards, Guidance and Assessment Methodology. Available at: ([www.iaisweb.org](http://www.iaisweb.org)).
- IAIS and OECD (2009). Issues Paper on Corporate Governance. Available at ([www.iaisweb.org](http://www.iaisweb.org)) and (<http://www.oecd.org/daf/insurance/governance>).
- IFSB (2008). Guiding Principles on Governance for Islamic Collective Investment Schemes. Working Paper No. IFSB-6.
- IFSB (2009a) Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings. Working Paper No. IFSB-8.
- IFSB (2009b) Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services. Working Paper No. IFSB-10.
- IFSB (2009c). Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services. Working Paper No. IFSB-9.
- IFSB (2010). Standard on Solvency Requirements for TAKAFUL (Islamic Insurance) Undertakings.
- Kaplan, R. and Norton, D (2000). Having Trouble with Your Strategy Then Map It. Harvard Business Review. pp. 167-176.
- Lewis, Mervyn K (2005). "Islamic Corporate Governance". Review of Islamic Economics. Vol. 9 (1): pp. 5-29.
- Lewis, Mervyn K. (2003). "Challenges to the Takaful Industry". New Horizon. Vol. 132: pp. 10-14.
- Mercantile & General Reinsurance (1993). Survey of crop insurance in Australia. Hill, Jeanene Publisher: [Sydney] : ISBN: 0646153188 DDC: 36812.
- Madzlan Mohamad Hussain. (2009). 'Legal Issues in Takaful'.Simon Archer, Rifaat Ahmed Abdel Karim, Volker Nienhaus (Eds.). Takaful Islamic Insurance Concepts and Regulatory Issue.West Sussex.UK. John Wiely& Sons. pp. 67 – 84.
- Oxford Business Group OBG (2011). Saudi Arabia: Insured growth. Reviewed on :( [http://www.oxfordbusinessgroup.com/economic\\_updates/saudi-arabia-insured-growth](http://www.oxfordbusinessgroup.com/economic_updates/saudi-arabia-insured-growth))

OECD (1995). Participatory Development and good governance. Development co-operation guidelines series.

OECD (1997) Historical Statistics. Paris: Organization for Economic Co-Operation and Development.

OECD (2004). "Principles of Corporate Governance". France. ISBN 92-64-01597-3-No. 53533.

OECD (2011). OECD Guidance in Insurer Governance. Available at (<http://www.oecd.org/daf/insurance/governance>).

Parasuraman, A., Zeithaml, Valerie A., and Berry, Leonard L. (1988). "SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality". *Journal of Retailing*. Vol. 64 (1): pp. 12-40.

Reuters, (1999a). "The European Insurance Outlook 1999-2005". REUTERS. London. pp. 07-60. At [www.reuters.com](http://www.reuters.com). Visited on August 2011.

Reuters, (2016). "Saudi Arabia's Vision 2030 reform plan". REUTERS. London. pp. 65- 95. At <http://www.reuters.com/article/us-saudi-plan-reaction-idUSKCN0XM1FX>. Visited on August 2011.

Robert, S. (2002). "RIMS seeks broader use of quality measures". *Business Insurance*. Vol. 36 (Aug.): pp. 1-22.

Rubin, Harvey W. (2000). *Dictionary of Insurance Terms*. Barron's Educational Services, Inc.

SAMA (2005a). Law on Supervision of Cooperative Insurance Companies. At: (<http://www.sama.gov.sa>).

SAMA (2005b). Implementing Regulations. At: (<http://www.sama.gov.sa>).

SAMA (2008). Insurance Market Code of conduct Regulations. At: (<http://www.sama.gov.sa>).

SAMA (2009). The Saudi Insurance Market Report. At: (<http://www.sama.gov.sa>).

SAMA. (2010a). Forty Sixth Annual Reports - The Latest Economic Developments. At: (<http://www.sama.gov.sa>).

SAMA. (2010b). the Saudi Insurance Market Report. At: (<http://www.sama.gov.sa>).

Takaful Act 1984. LAWS OF MALAYSIA.

SAMA (2011a). Audit Committee Regulation in Insurance and/or Reinsurance Companies. At: (<http://www.sama.gov.sa>).

SAMA (2011b). Actuarial Work Regulation for Insurance & Re-Insurance Companies. At: (<http://www.sama.gov.sa>).

SAMA (2011c). Insurance Intermediaries Regulation. At: (<http://www.sama.gov.sa>).

SAMA (2011d). Investment Regulation for Insurance & Reinsurance Companies. At: (<http://www.sama.gov.sa>).

SAMA (2015). Surplus Distribution Policy. At: (<http://www.sama.gov.sa>).

SAMA (2016a). Insurance Corporate Governance Regulations. At: (<http://www.sama.gov.sa>).

SAMA (2016b). Actuarial Work Regulation for Insurance and/or Reinsurance Companies. At: (<http://www.sama.gov.sa>).

SAMA (2016c). Audit Committee Regulation in Insurance and/or Reinsurance Companies. At: (<http://www.sama.gov.sa>).

Simon Archer, Rifaat Abdel Karim, Volker Nienhaus (2009). Conceptual, Legal, and Institutional Issues Confronting Takaful. Simon Archer, Rifaat Ahmed Abdel Karim, Volker Nienhaus (eds.). *Takaful Islamic Insurance Concepts and Regulatory Issue*. (pp. 1 – 3). West Sussex.UK. John Wiley & Sons.

Tobias, Frenz. (2009). *Takaful and ReTakaful*. Malaysia: Munich Retakaful.

Wilson, Rodney. (2007). Concerns and Misconception in the Provision of Takaful, Sohail Jaffer. *Islamic Insurance: Trends, Opportunities and the Future of Takaful*. (pp. 72 - 85). London. Euromoney Institutional Investor Plc.