الأكاديمية المالية
The Financial Academy

PROFESSIONAL CERTIFICATE OF "COMPLIANCE OFFICER OF INSURANCE SECTOR"

Learning curriculum issued by the Financial Academy.
October 2020

This learning curriculum includes 5 chapters and constitutes the main reference to pass Compliance of Insurance Companies Sector Professional Exam.

In the name of Allah,
the Most Gracious, the Most Merciful

Welcome to the learning curriculum issued by the Financial Academy. This book is designed to qualify candidates for Money Exchange and Transfer Professional Exam set in Financial Academy.

This book is a learning guide and FA made an enormous effort to ensure the accuracy of the content.

Curriculum mapping that is shown at the end of the book includes a detailed study plan, which can also be found on the Academy's website: www.fa.org.sa or by contacting the Academy through the phone number: +966114662688 / Fax: +966114662368.

Note that the exam is based on this plan and we advise candidates of Money Exchange and Transfer Professional Exam to make sure to have the latest updates on this curriculum.

The questions in this book have been designed as a tool to assist the candidate in reviewing different information of the curriculum and to promote deep learning of all chapters. Candidates should not consider these questions as "Mock Exam" questions, or view them as an indicator to questions' level that will come in the exam.

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Studying this material may take up to 70 hours

Chapter One

Concept of Risk Management and Insurance Business

This part of book accounts for approximately 13 out of the 50 questions of the test.

1- Introduction:

This Chapter provides an introduction to risk concept, types and conditions so that risks can be insured. The Chapter also defines other concepts e.g., risk management, as well as insurance concept, types and economic and social importance. Further, the Chapter clarifies SAMA's role in controlling all operations carried out by insurance companies in KSA.

1-1 Risk concept:

Learning Objective

Introduce trainee to concept and types of risk.
Introduce trainee to risk management.

Individuals are constantly exposed under all circumstances to many risks, as anyone will surely put himself or others at risks one day, which will result in material or moral damage. An individual cannot drive his car without bearing risks of injury to passerby, and businessman (facility or factory owner), cannot manage his factory without bearing risks of injury to workers in such factory. This includes risks to others, whether working in or visiting the factory...etc. Further, the contractor cannot construct a building without bearing risks to pedestrians at streets next to the building under construction.

Risk is considered as the basic term in any material directly or indirectly dealing with insurance, because without risk, no need for insurance. Insurance exists only to cover potential risk, and absence of risk makes insurance contract void and useless. Therefore, risk is a term that has sparked a dispute among those tried to define the term, as opinions differed about the definition of risk. It was defined by economists, sportsmen, insurance professionals, actuaries, statisticians and others.

2.1 Risk Definition: Risk Definition:

The mental condition that afflicts people when they make decisions during their daily lives, which results in a state of doubt, fear or uncertainty about the results of such decisions, and may cause loss or damage.
This definition is characterized by addressing the moral and material aspects of risk, as well as the key elements of risk, namely: Loss probability, extent of expected loss, and decision-maker circumstances.

3.1 Types of risk:

We have been familiarized with the concept of risk, and now we address risk classification. Risks come in several forms as follows:

A. Financial Risk:

We already know that the risk is a situation, incident, or a feeling of anxiety, doubt, and fear of leaving someone in the future in a condition worse than his situation now. Risks or financial risks are situations that can be specified and measured financially, meaning that they are related to the outcome of the risk not to the risk itself.

If the risk results can be measured financially, it will be classified as a financial risk. For example, losses that occur to properties, such as fire, theft, or work interruption due to fire, can be identified and measured. The car damage due to a crash or a rollover accident are also risks that can be measured financially. Damages caused by personal that can be identified by the courts can be identified and financially measured.
Financial risks are insurable and accepted by insurance companies.

B. Non-Financial Risk:

Non-financial risks cannot be measured financially. Risks that are difficult to be identified and measured financially due to the psychological and moral effects that vary depending on persons and circumstances. For example, when someone decides to buy a new car, and feels later that he is uncomfortable while driving it, this can be considered as a risk or loss that cannot be measured financially.

Measurement of the outcome of non-financial risks is usually not in monetary terms but by personal characteristics such as: disappointment, unhappiness, joy, pleasure, etc.
For example, visiting a restaurant for the first time may involve an element of risk as to whether the outcome will be disappointment or enjoyment. Choosing when and where to travel during vacation, and selecting a job involves a degree of risk (unknown outcomes), although the outcome may have some financial implications, a precise measurement in strictly financial term is not possible.

If a person had only one photograph taken as a child with his father that died, then that photograph would have a great value to the child. However, that value has an emotional or sentimental value, avalue that we cannot measure financially.
Non-Financial risks are not insurable by insurance companies.

C. Pure Risks:

Pure Risks result in a loss or at best no gain or loss and its results may be undesirable or leave us in the same state as we were before it occurred. Examples of pure risks: the fall of a person on the ground might cause a wound or fracture or do not cause any injury, or a vehicle collision, which either causes a loss or does not cause any damage. Therefore, pure risk leads to:

- A loss
- or break-even (No loss)
- Each time we travel in a car there is a risk of an accident. If there is no accident the position is unaltered, a break-even situation. If there is an accident a loss is suffered as a result of damage to the vehicle, injuries etc.
- There is no possibility of gain (apart from arriving safely at a destination), but there is a possibility of a loss.

Non-Financial risks are insurable by insurance companies.

D. Speculative Risks:

Risks that may give rise to loss or gain, such as investments in stocks, gambling and betting, as these activities can bring financial gains or losses or nothing can happen.

Hence, the risk of speculation has three consequences:

- Loss
- No loss
- Potential gain or profit

The distinction between them is important for insurance, which you should understand because the risk of speculation is not insurable or is not insured by insurance companies.

E. General/Common Risks:

The types of risk, whether financial or non-financial, pure or speculative, are concerned with the consequences of events. This division is more related to the causes and effects of risks.

From this simple division, General risks relate to risks affecting large groups of individuals, which are the main risks that occur outside the control of an individual or a group of individuals and whose effects extend beyond the individual to the whole or a large part of society. These risks do not include widespread natural disasters (such as earthquakes, hurricanes, floods, famine and the like but also include general economic disasters and social revolutions, such as unemployment and inflation) and similar risks that can be classified as general.

Since fundamental risks are caused by circumstances beyond the control of individuals who are exposed to losses, and where such losses are not the result of someone's own fault, it is the responsibility of society, not individuals, to deal with these losses, so social insurance must provide coverage against general risks.
However, some general risks such as earthquakes are covered by private insurance.

F. Particular Risk: Particular Risks:

Unlike fundamental risks, particular risks are, to a large extent, individual risks in their originsand effects, such as fire, theft, disability and other risks that affect an individual or a group of individuals rather than the society as a whole.

The impact of risk makes the distinction between fundamental and particular risks. For example, a severe economic recession that causes public unemployment in a region is a fundamental risk because it affects the economy of the whole country or all or most of its citizens. For us as individuals, many of us may face the possibility of unemployment for any reason, so the risk of being unemployed is a particular risk.

1.4 Characteristics of Insurable Risks:

For a risk to be insurable, the following characteristics should be present:

1.4.1 Possible:

This means that if we feel a risk is going to happen when doing something, there should be a possibility of the risk occurring, as both elements of certainty and uncertainty on occurrence of risk are completely vanished, meaning that percentage of risk occurrence ranges between (0% and 100%).
Which means: $0 < \text{probability of risk} < 1$

1.4.2 Quantifiable:

This means that the risk should be measurable by mathematical and statistical methods. For example, if we are going to study phenomenon of death, then we should be able, using mathematical and statistical methods, to figure out the probabilities of death as well. If we are going to study occurrence of fire, we must be able to calculate fire rates .... etc. However, if we are going to ensure skills of an athlete against possible damage, it is difficult to calculate probability of such risk, and therefore insurance coverage may not be possible. Quantitative measurement includes possibility of calculating both the probability of risk occurrence as well as expected losses.

1.4.3 Occurrence Thereof Causes Financial Loss:

This means that risks that result in a non-financial (i.e., moral) loss is not measurable. Therefore, the occurrence of risk must result in a financial loss so that it can be measured. For example: A ship sunk with its goods is considered a risk for both the ship owner and goods owner because the occurrence of sinking causes both of them a financial loss, and therefore measurement of risk requires existence of financial loss.

1.4.4 Futuristic:

This means that risks that occurred in the past cannot be covered, so the risk that can be covered by insurance must be expected to occur in the future.

1.5 Risk Management

The natural person must seek and search for the best ways, vehicles and means that protect him, his money or his family from potential risks, which may cause material losses. The legal person must also search for ways and means that protect him, his property, industry, trade, or civil responsibility towards others from potential risks, which may cause unbearable material losses. From this perspective, we are going to outline key strategies to confront risks as follows:

1.5.1 Risk Avoidance Strategy

Sometimes we can avoid risks by making a passive decision, for example, those people who avoid traveling by plane for fearing to die in a plane crash in midair, so they decide to avoid such risk by avoiding flights. Similarly, taking a decision to avoid initiating a specific industry (e.g., nuclear reactor) to avoid radioactive emissions.

This strategy is criticized for losing many of potential opportunities and advantages by losing such industries, e.g., ease of travel, plane travel time-saving, or energy generating through nuclear reactors. However, this strategy can be effective with risks that a person or some countries may not be able to bear losses resulting therefrom, such e.g., establishment of nuclear reactors.

1.5.2 Precaution and Prevention Strategy

This strategy enables prevention of risks in various ways as well as potential financial losses, or at least reduces their scale by influencing and reducing the factors involved in occurrence of such risk. There are many strategies to prevent risk, for example, but not limited to the following:

- Families strive to reduce risk of disease in their children from an early age, by vaccinating them against such diseases.
- Various factory managers seek to prevent risk of fires or reduce their possibility, and thus reduce potential material losses by installing factory-wide fire alarms, extinguishing devices, training factory workers on their use, in addition to applying non-smoking guidelines and signs.
- Most countries seek to prevent risk of flooding or reduce its possibility by building solid bridges and dams.

1.5.3 Risk Retention Strategy: (Risk Acceptance Strategy)

Risk Retention Strategy means that the person or facility at risk bears the effects and results of such risk and consequent losses. This strategy is effective if the expected losses are small and non-recurring, and the person's financial position allows him to bear the consequences. For example, someone investing in low-risk securities, or a company accepting low risks not covered by insurance policy.

1.5.4 Saving and Self-Insurance Strategy

There is no doubt that saving is one of the prominent ways to confront risks, as an individual can save to face any potential risk causing a financial loss. Companies and establishments, especially large ones, can also save and make reserves to face losses, if occurred. In this way, individuals are able, by saving part of income, to face potential risks, whether sickness, ageing, unemployment or disability.... etc. etc. Further, companies can, by saving sums of their profits, face risks of property damage, i.e., corruption, or risks of disease or disability injuring their employees. This strategy may not be effective sometime as savings may not be sufficient to face financial losses of a risk. This strategy is viable in large facilities due to presence of many homogeneous units sharing the risk, where the Law of Large Numbers (Which achieves convergence of actual results from expected results) is fulfilled.

1.5.5 Risk Transfer Strategy

This strategy is called “risk transfer” and it means transferring the risk from the person at risk to another person, according to a contract or agreement between them, provided that the latter bears the loss that occurs when the accident happens while the former pays the cost of such risk in return.

For example, construction risks, where the risk to the owner is transferred to the contractor who carries out construction, in exchange for an additional cost under a contract. (Transfer of risk in such case takes place by way other than insurance, as risks here are related to construction contract)

1.5.6 Insurance

It is known to be the most significant strategy to confront or manage risks, as insurance is a system that addresses risk, designed by the insurer (Insurance company) to reduce uncertainty of the insured (People contracting with the company) with the company by compensating them for financial losses in return for certain premiums.

1.6 Insurance Concept, Types and Economic & Social Significance

Learning Objective

Getting familiar with the concept of insurance and its types
Economic and Social Importance of Insurance

1.6.1 Reinsurance

Various and diverse opinions have involved in defining insurance, as each definition reflects a special point of view. Perhaps the reason for such diversity is mainly attributed to the strong link between insurance and various sciences, e.g., economics, statistics, sports and law, which drove scholars of all such disciplines to study insurance as part of their field. Therefore, there are many different definitions of insurance. Several elements must be taken into account when defining insurance, namely:

- Considering the general form of insurance as a system.
- The key method of realizing insurance objective is to pay compensation in case of a financial loss covered in insurance policy.
- Determining the parties to a contract, namely the insurer (insurance company) and the insured.

- The main objective of insurance is to reduce or mitigate uncertainty of the insured (insurance applicants), and thus realize peace of mind for them.

Insurance definition was included in the Implementing Regulations of the Cooperative Insurance Companies Control Law issued by virtue of Minister of Finance Resolution No. (1/596) dated 01/03/1425 AH, as "Mechanism of contractually shifting burdens of pure risks by pooling them".

From this definition, insurance is a system for dealing with risk, designed by the insurer to reduce the phenomenon of uncertainty among the insured, in addition to the consequent reassurance and peace of mind, by compensating them for financial losses in return for certain premiums.

1.7 Economic and Social Importance of Insurance

The basic function that insurance seeks to realize in any society is cooperation between a group of individuals exposed to the same risk with the intent of distributing losses to the largest possible number. In addition to this basic function of insurance, there are other economic and social benefits, which are:

1.7.1 Economic Benefits of Insurance

- The stability of industrial and commercial projects, as insurance works on mitigating uncertainty that encounters every project or accompanies every business owner.
- Expanding credit and strengthening commercial confidence. Recently, it has become a requirement to obtain credit loans to conclude insurance documents, whether related to the project, its owner, or its civil liability towards others.
- Increasing productivity efficiency: Insurance promotes stability for projects, business owners, and workers in all economic sectors by instilling a spirit of tranquility, which undoubtedly has a significant impact on production efficiency.
- Generating huge capitals used to finance development plans.
- Improving both the Balance of Payments (BOP) and Balance of Trade (BOT) in a country, as insurance services rendered by insurance companies to foreigners in return for obtaining hard currencies, investments of insurance companies in foreign countries, as well as return of reinsurance operations conducted and outsourced to foreign countries leads to an increase in the proceeds that appear in current BOP operations, which generates BOP surplus and savings. Further, insurance promotes growth of foreign trade between countries and thus leads to BOT improvement.

1.7.2 Social Benefits of Insurance:

- Community stability, for example providing a financial return to households in case of death of its breadwinner having social insurance or protection insurance from an insurance company.
- Providing Safety and Reassurance: Insurance contributes to reducing the feeling of fear by providing protection from risks facing people and property.
- Spreading Awareness of Responsibility: If a person obtains insurance policies that cover his debt towards others, this creates a feeling of responsibility towards his community.

1.8 Key Participants and Regulators of KSA Insurance Industry

Learning Objective

Introduce trainee to key participants and regulators of KSA insurance services sector as well as their role in such industry.

The Cooperative Insurance Companies Control Law was issued by virtue of Royal Decree No. M/32 dated 02/06/1424 AH, as amended by Royal Decree No. (M/30) dated 27/05/1434, followed by the issuance of its Implementing Regulations by the Minister of Finance's Resolution No. 1/596 dated 01/03/1425 AH. The main objective of such Law and its Implementing Regulations is to regulate the insurance sector in the Kingdom. Insurance industry is concerned with rendering insurance services through many products designed by experts in providing coverage that protect individuals and institutions from interactive and participatory industries, meaning that they enter into relationships with many government and private agencies that carry out many tasks, roles and functions.

Main participants and regulators of the insurance services industry in KSA, and their respective roles in this industry, are as follows:

1.8.1 Insurance and Reinsurance Companies:

Insurance and reinsurance companies are major participants in the insurance industry and theinsurance market in Saudi Arabia. These companies engage in underwriting of various risks, price such risks, issue insurance policies and settle claims.

1.8.2 Insurance Profession Companies and Practitioners:

They are the main participants in insurance industry in KSA insurance market;
this is because such professions are licensed by SAMA after involved practitioners submit an official application and fulfill all requirements for each insurance profession, so that they are licensed to practice any of such professions related to insurance or reinsurance business. Some of these key professions are as follows:

1.8.3 Insurance Brokers:

The insurance broker is defined as a legal person who, in return for payment, negotiates with insurance companies to complete insurance process for the insured. It is noteworthy that there is a company's minimum capital required to license an insurance broker. The Cooperative Insurance Companies Control Law prohibited insurance companies from dealing with any unlicensed broker, and this of course applies to all insurance self-employment professions.

1.8.4 Insurance Agents Companies:

Insurance agent is defined as the legal person who, for a fee, represents an insurance company, markets and sells insurance policies, and all works it usually carries out for or on behalf of the insurance company. In addition, insurance agent can deal with several insurance companies after the approval of SAMA.

1.8.5 Actuaries:

Actuary is defined as the person who applies theory of probability and statistics according to which services are priced, obligations are established and provisions are made. Each insurance company must have an actuary according to SAMA's instructions.

1.8.6 Surveyors and Loss Adjusters:

Surveyor and loss adjuster is defined as the legal person who examines and inspects the to-be-insured asset before being insured, and loss adjusters define causes of loss and estimate its value.

1.8.7 Claims Settlement Specialists:

Insurance claims specialist (as an insurance claim is a request submitted to the insurance company to compensate for the financial loss incurred from a risk covered under the insurance policy) is defined as the legal person who manages, reviews and settles insurance claims on behalf of an insurance company

1.8.8 Insurance Advisors:

Insurance consultant is defined as the person who provides consulting services in insurance business, so that its fees are collected from the entity to which the advice is provided.

1.9 Regulatory and Supervisory Bodies:

1.9.1 The Saudi Central Bank (SAMA):

The Council of Ministers agreed, during its session held on Tuesday, 24/11/2020, that the name “Saudi Central Bank” replace the name “The Saudi Arabian Monetary Authority”, which was established in 1952 AD and is also known as “SAMA” for (Saudi Arabian Monetary Authority). Pursuant to the Law, Saudi Central Bank retains the abbreviation “SAMA” due to its lengthy record and reputation locally and globally. Further, banknotes and coins of all categories bearing the SAMA’s name will continue to retain the status of legal deliberation and acquittal power. The Law defined SAMA’s objectives as follows:
Maintaining monetary stability.
Promoting the stability of, and enhancing confidence in, the financial sector.
Supporting economic growth.

The Law emphasized that SAMA is responsible for setting and managing monetary policy and selecting its tools and procedures, in addition to clarifying SAMA’s relationship with the government and relevant external international bodies. Further, the Law specified a framework for governance of SAMA’s business and decisions. SAMA is one of the most important institutions for the financial and insurance sectors in particular. SAMA has been entrusted with many tasks under several regulations and instruction. It is responsible for the integrity and effectiveness of the financial system in carrying out its duties towards users and contributors of the financial system’s services.

What concerns us here is the role of SAMA with regard to insurance industry with regard to SAMA’s technical functions related to insurance activity, as SAMA specializes in monitoring cooperative insurance companies and service providers in the Kingdom, by carrying out the following:

- Customer care and protection
- Reviewing and proposing amendments to the implementing regulations of the Cooperative Insurance Companies Control Law.
- Receiving and examining applications for the establishment of insurance and rein

surance companies, and verifying that they meet the requirements, conditions and rules.

- Supervising technical aspects of the operations of insurance and reinsurance companies.
  - Regulating and approving investments of insurance processes funds.
  - Organizing the distribution of surplus share funds to policyholders and shareholders.
  - Determining capital requirements and financial solvency of each type of insurance activity that companies request to practice.
- Organizing the distribution of surplus share funds to policyholders and shareholders.
- Determining capital requirements and financial solvency of each type of insurance activity that companies request to practice.
- Regulating and permitting investments of insurance companies inside and outside the Kingdom.
- Determining educational requirements and qualifications for insurance sector employees.
- Determining behavior of dealing, insurance sales and disclosure of information.
- Approving insurance products for insurance companies.
- Regulating the purchase of insurance coverage.
- Regulating and supervising cooperative insurance companies, insurance-related liberal professions, loss adjusters, and actuaries.
- SAMA has been protecting the insured and developing the market, through:
- Protecting insurance companies from unjustified financial losses and dishonest behavior across insurance sector.
- Promoting market transparency by requiring insurance companies to publish reliable and accurate data to the public of those dealing with companies of this sector.
- Fostering, developing and growing the KSA insurance market, through innovating tools to do so, and spreading insurance awareness across the market.
- Ensuring the stability of insurance sector to encourage investments in this sector.
- Promoting and developing skills of labor force in insurance sector companies, including insurance specialists and supervisors in KSA.

1.9.2 Council of Cooperative Health Insurance (CCHI):

CCHI is a Saudi governmental body with an independent legal authority established under Article (4) of Cabinet Resolution No. (71) dated 27/04/1420 AH (11/08/1999 AD), which provides for the establishment of the Cooperative Health Insurance Council to oversee the implementation of the Cooperative Health Insurance Law. CCHI's Board of Directors is chaired by His Excellency the Minister of Health and membered by some local government ministries.

General Secretariat of the Council of Cooperative Health Insurance:

It represents CCHI's executive body. Its tasks are to prepare and implement policies and executive procedures and direct supervision of health insurance, including continuous technical and medical follow-up for all those concerned with the Law as well as to foster protection of policyholders' rights. The General Secretariat is exerting great and multiple efforts in cooperative health insurance industry, with a view to achieving objectives of the Law with key partners in insurance relationship from approved health service providers, qualified insurance companies and policyholders, including:

- **Accreditation of Healthcare Providers:** Health care providers are one of the three parties to insurance relationship entrusted with providing health care services to insured who contract with insurance CCHI-qualified companies. Healthcare providers are classified into hospitals/ day surgery centers/ polyclinics/ clinics/ single-doctor clinics/ diagnostic center/ physiotherapy center/ labs/ pharmacies/ hardware and prosthetic stores/ eyeglasses stores. CCHI General Secretariat accredits health facilities in public and private sectors wishing to work under its umbrella after ensuring they meet accreditation requirements and have qualified staff as well as appropriate administrative and technical capabilities to deal professionally with qualified insurance companies.
- **Renewal of Accreditation of Healthcare Facilities:** Renewing healthcare facility accreditation comes as a control step with a regulatory role, and is one of the basic tools for maintaining quality levels in healthcare facilities to ensure they perform the role entrusted thereto to the fullest extent. In accordance with the requirements of renewing the accreditation of health care providers in the Council of Cooperative Health Insurance Law in Article five and Article forty-three of the implementing regulations, Accreditation of healthcare providers is renewed annually or every two or three years for some of categories, after they fulfill accreditation renewal requirements.

1.9.3 Capital Market Authority (CMA):

Since all insurance companies according to the Law must be public joint stock companies, they must offer part of their shares to public citizens. Since the body responsible for such offering is CMA, the reader should be familiar with as CMA is one of the main participants in KSA insurance market.

CMA's Tasks: CMA supervises the regulation and development of the financial market, and issue necessary regulations, rules, and instructions for implementing the provisions of Capital Market Law so as to realize an appropriate climate for investment in the market, foster confidence therein, ensure appropriate disclosure and transparency of joint stock companies listed in the market, as well as to protect investors and securities dealers from illegitimate business in the market.

1.9.4 Ministry of Commerce (MC):

The Ministry of Commerce is working to implement integrated interactive services that make it easier for the final beneficiary to complete its application completely without refer to the ministry building. Commercial Register (CR) of any insurance company or even free insurance professions is one of the services provided by MC to insurance company. This is because obtaining a commercial register for a company is a prerequisite for obtaining insurance business licenses from SAMA. In accordance with the Cooperative Insurance Companies Control Law, the first phase is the examination of application for establishment of the insurance company by SAMA. The application is then referred to the Ministry of Commerce in accordance with paragraph 1 of Article 2, "To receive applications for establishing cooperative insurance and re-insurance companies, study the applications to ensure compliance with applicable rules and conditions in this regard". If such applications are approved, they shall be referred to the Ministry of Commerce for the necessary regulatory procedures."

Accordingly, any licensed insurance company must be subject to the Companies Law, which regulates relationship between all shareholders constituting as a joint stock company first before being an insurance company.

1.9.5 Ministry of Investment (MISA):

MISA is the ministry responsible for managing investment environment in KSA. It provides services and facilities to investors to improve investment climate and promote KSA's economic development as well. Further, MISA acts as key player for fostering local investments and facilitating the exchange of best practices between public and private sectors as well as insurance sector, and also aims to contribute to realize an advanced economic policy based on study and strategic research.

MISA is the authority responsible for managing and supervising investment environment for foreign investors in KSA.

MISA's Role in Supervising and Controlling Insurance Business.

- Registering non-Saudi establishments and persons practicing insurance business
- To conduct any insurance-related business, the Law requires registration with MISA. Such business include:
  - Insurance or reinsurance companies.
  - Insurance broker companies.
  - Insurance actuaries.
  - Insurance consultants.
  - Inspection and damage assessment experts.
  - Auditors of insurance companies' accounts through the unit controlling the work quality of auditors registered in MISA's records.

1.9.6 Chamber of Commerce and Industry:

Every registered and licensed insurance company must be affiliated with the Chamber of Commerce in the city in which it is licensed, as the Chamber of Commerce and Industry is one of the non-governmental agencies that regulate support, supervision and follow-up of the private sector, including insurance companies and free insurance professions, as such chambers is the main representative of this sector in the Saudi economy.

1.9.7 Ministry of Human Resources and Social Development (HRSD):

HRSD's overall objective is to regulate the use of manpower through enforcing the Labor Law, planning and developing human resources. HRSD places emphasis on obligating all private sector-owned institutions and companies to apply cooperative health insurance to Saudis working for it as well as their families. HRSD also underlines the activation of labor offices' supervisory role to apprehend violators, submit immediate reports on compliance of such companies and institutions with HRSD's decisions regarding application of cooperative health insurance to all Saudis working in the private sector and their family members. Further, HRSD focus on obligating private companies and institutions to conclude health insurance contracts for all their Saudi employees with zero tolerate. HRSD also informs all labor offices to follow up and monitor any facility not responding to such regulation.

1.9.8 Other Governmental and Regulatory Bodies:

Insurance sector is part of an integrated institutional and economic system whose work intersects with many regulatory, supervisory and governmental authorities. We have previously mentioned the most important of these bodies, but there are some parties related to insurance sector, but with fewer roles, including: The General Department of Traffic, Civil Defense, municipalities, some specialized committees e.g., the Public Transport Authority and others.

1.10 General Features of the Insurance Sector and Types of Insurance Services Provided by the Sector:

Learning Objective

To be familiar with the general features of the insurance sector
To be familiar with the types of insurance services provided by the insurance sector.

1.10.1 In accordance with the Cooperative Insurance Companies Control Law promulgated by Royal Decree No. (M/32) dated 02/06/1424H, key features of the insurance companies' sector in KSA, are as follows:

- Insurance companies in the Kingdom shall operate in accordance with the practice of cooperative insurance, and not inconsistent with the provisions of Sharia. The company shall be a joint-stock company in KSA.
- The principal purpose of the company shall be to conduct insurance or reinsurance activities, and the company shall not undertake other activities unless they are necessary or complementary to its principal purpose. Reinsurance companies shall not directly own insurance brokerage companies or establishments, and reinsurance companies shall not own reinsurance brokerage companies or establishments without obtaining the prior approval of the Saudi Central Bank.

- The paid-up capital of the insurance company shall not be less than SAR 100 million, the paid-up capital of the reinsurance company or the insurance company that simultaneously engages in reinsurance business shall not be less than SAR 200 million. The capital of the insurance or reinsurance company shall only be amended upon approval of the Saudi Central Bank
- An insurance or re-insurance company - upon commencing business - may not suspend its insurance activities without the prior approval of the Saudi Central Bank. This is to ensure that insurance companies take all necessary measures to safeguard the rights of the policyholders and the investors.
- Insurance and reinsurance companies shall allocate a share of their annual profits of no less than 20% as a statutory reserve, until the total reserve reaches 100% of the paid-up capital.

1.10.2 There are a number of other general features of the insurance sector in KSA that are related to the practice of the activity and results of business, as follows:

- Growth and development of the insurance sector keeps pace with the economic development in the Kingdom, which benefited from the economic development in the country, given the economic transformation that the Kingdom is witnessing and the realization of Saudi Vision 2030.
- Mandatory of some insurance types, such as health insurance, compulsory third-party insurance as a vehicle insurance type, occupational insurance for certain professions, and hidden defects insurance that appear in buildings and structures after use.

SAMA issued the thirteenth annual report on the insurance sector in the Kingdom, highlighting the sector's outcomes during 2019 and its contribution to the Kingdom's GDP. Some of main features are as follows:

1.11 Types of insurance services provided by the insurance sector:

1.11.1 Individual Products:

A. Comprehensive insurance for motor vehicles:

This product covers the damage to individual vehicles. All vehicle insurance plans may look similar in their coverage, usually consisting of several sections:

Section 1: Damage to the body of the vehicle as a result of a fortuitous accident or any other deliberate damage by others. It also covers damage caused by collision, overturning, fire, theft.

Section 2: It covers civil liability to third parties. The owner of the vehicle or driver may have civil liability to compensate the third party as a result of an accident caused by the insured vehicle. In this case, the insurance company shall pay compensation for such liability up to a maximum of 10 million SR during one year for the damage to property, death or bodily injury, including legal expenses.

Section 3: The optional section, usually called additional covers or optional covers, e.g.:

- Insurance expansion for cold, floods and other natural hazards: When floods swept through Jeddah at the end of 2009, most of the insured whose vehicles were damaged were unable to obtain compensation from insurance companies because they had mandatory vehicle liability insurance policies that covered only liability for third parties and excluded natural hazards. The same scenario was repeated when similar floods hit Riyadh in early 2010. In the interest of some insurers to meet customer requirements for protection against loss and damage to vehicles resulting from natural hazards, it has been decided to extend some insurance policies to cover compensation for loss or damage to the insured vehicle resulting directly from cold or floods caused by rain and torrents.
- Personal Accidents Extension: This extension offers a coverage to personal injuries to the driver and / or passengers for an additional premium, so the insurer will compensate the insured for the death, and partial or total disability of the driver or passengers because of an insured accident.
- Geographical Extension: It is one of the advantages that insured can benefit from when purchasing vehicle insurance policies. The geographical extension of the policy covers some countries such as GCC countries, Jordan or Egypt.

B. Motor Insurance Third Party Liability:

This cover is one of the most common forms of motor insurance in the insurance market in Saudi Arabia. It is a compulsory insurance through a unified insurance policy issued by SAMA. The amount of compensation for third-party liability is determined in light of the damage value, taking into account the terms, conditions and exclusions of the insurance policy. Therefore, this cover compensates the aggrieved person as a result of an accident or risk to third parties by insured vehicles in one of the following cases:

- Death of the third party according to the terms and conditions of the policy.
- Physical damages to third parties.
- Financial damages to third parties property
- Costs of incident or claim settlement if the settlement is conducted through the judiciary.

C. Medical insurance for individuals:

The Council of Cooperative Health Insurance, which approved a unified insurance policy for medical insurance. Medical insurance is mandatory for all private sector employees either Saudis or residents and their families. Benefits of the program are as follows:

- Treatment services in outpatient clinic and in-hospital including in-hospital accommodation and living expenses.
- Dental and vision treatment and hearing aids.
- Expenses of pregnancy and childbirth, including natural and Caesarean births and abortion.
- Pre-existing medical conditions prior to the insurance.
- Vaccinations for children according to the schedule

D. Medical Malpractice insurance:

The medical malpractice insurance policy provides protection to any medical practitioner against the responsibilities as a result of negligence or omission during his work. In this respect, it is taken into consideration that the coverage is not limited to doctors or surgeons, but also includes paramedics, medical technicians, nurses and pharmacists, etc. It is possible to choose the limitation of the coverage from among the options available in the policy. Also, insurance coverage can be obtained through a single policy for up to 5 years. Thus, the policy ensures peace of mind and full protection for a long period, which will positively reflect the work performance in an atmosphere of tranquility.

E. Homeowners insurance for individuals:

The homeowner's insurance policy provides peace of mind, by ensuring the protection of buildings and their contents against fire, natural disasters, explosions, earthquakes, riots, storms and pipe explosions. This policy, as required by the applicant, covers: buildings or their contents only or the buildings and their contents. The policy also covers loss caused by looting or theft or attempted burglary or burglary for theft of contents, including jewelry, alloys, gold or silver jewelry or other precious metals, according to an annual maximum limit specified in the insurance policy. There are also options for covering, as an example, liability to servants and third parties, etc.

F. International Travel insurance:

This policy provides insurance coverage for the insured while traveling abroad against any losses he may suffer due to a series of common accidents ranging from cancellation or changing of itinerary, missed departure, emergency medical expenses, personal accidents, lost baggage in travel or delayed arrival. The policy is designed to provide comprehensive protection for travelers with travel-related risks. The standard policy covers emergency medical expenses outside Saudi Arabia. The insured person can also obtain medical emergency services in most parts of the world twenty-four hours a day by contacting service providers appointed by the insurance company. The international travel policy provides two types of coverage:

- Short-term insurance covering individual trips within a period not exceeding six months.
- Annual travel insurance covering any number of trips during the entire year.

This coverage is important as it is one of the mandatory documents for obtaining a travel visa for some countries.

G. Personal Accident insurance for individuals:

The personal accident policy is designed to physically compensate the insured person or his legal heirs in case of an accident that results in an injury, a permanent or temporary disability or death during the period of insurance. It provides coverage throughout the insurance period worldwide. This coverage is optional, but some embassies require some families to enable drivers or servants to obtain this coverage as a prerequisite for work.

1.11.2 Corporate Insurance products:

Insurance coverage is designed by insurance companies to meet companies' insurance needs of different categories. Despite the multiplicity of these covers, the following covers are the most common in the Saudi market:

A. Motor Vehicle insurance:

This product offers flexible insurance solutions and various coverage for fleets of different size, and provides coverage options that can be tailored to commercial requirements of different types of vehicles:

- Leased vehicles (rent-to-own method).
- Rental vehicles.
- Light transport vehicles (not exceeding 3.5 tons).
- Medium transport vehicles (not exceeding 5 tons).
- Heavy transport vehicles over 5 tons and / or more than 16 seats.
- Commercial vehicles used in domestic and international transport.
- High-risk commercial vehicles as gas and fuel trucks.
- Vehicles of diplomatic nature.

B. Medical insurance for companies

It includes all coverages, conditions, and limitations of the standard policy issued by the Council of Cooperative Health Insurance and in the Implementing Regulations of the Cooperative Health Insurance Law. The coverage includes outpatient clinics and in-patient in a shared hospital room with an annual maximum of 500,000 SR, in addition to pregnancy and birth coverage up to SR 2,000, Coverage is also available outside Saudi Arabia in case of emergency during leave or business trip not exceeding 90 days. The beneficiary is required to obtain a prior approval of the company for the expenses of in-patient and outpatient services starting from 500 SR and more, and pays %20 of the treatment cost in outpatient clinics within the network of medical service providers up to a maximum of one hundred SR.

C. Protection and Savings Insurance:

When individuals are exposed to death or total permanent disability that prevents them from doing their jobs, many problems arise for employers, their dependents or their financial institutions that have contracts or credit programs with them. Thinking about the future and preparing for its volatility also requires requires the necessity of managing a saving and investment program that provides a financial resource that will help the beneficiaries to face difficult living conditions in case of death or disability of the breadwinner. A number of needed protection and saving programs has been designed for individuals, employers, financial institutions and banks that operate on the basis of the principle of Islamic Takaful, some of the insurance programs offered by the insurance sector are as follows:

- Credit Life insurance program (Credit):

This program targets customers for banks and credit companies, as borrowers are insured in favor of a bank or credit company as policyholder. Under this program, the insurance company pays the remaining balance of the loan that has to be paid to the bank or credit company in case the borrower is exposed to death or permanent disability.

- Group Term Life insurance for employees:

This program targets employers who have a number of employees working for them, and the policy pays the benefit (the agreed amount of insurance) if any of the covered employees is exposed to death or permanent disability.

D. Personal Accidents insurance for companies:

The personal accident policy is designed to physically compensate the insured person (or his legal heirs) in case of an accident that results in an injury, a permanent or temporary disability or death during the period of insurance. It provides coverage throughout the insurance period worldwide.

E. Property insurance for companies:

This product is divided into a number of sub-covers:

- Property insurance:

against fire and allied perils: This insurance compensates insured for accidental damage to property which may be the result of multiple perils such as fire, lightning, explosion on the ground or underground, collision damage, aircraft damage, water tank rift, explosion of pipes or appliances, leakage of sprays and storms, Cyclones, tropical or tropical cyclones, floods, waterlogging, riots, strikes, intentional damage, earthquakes, looting, violent theft or forcible entry to or exit from insured premises.

- against all risks:

This policy provides comprehensive and integrated coverage for industrial units or commercial property, etc. against all risks (including accidental damages) except for what is specifically excluded under the policy.

- Property insurance: for shop owners:

Stores are one of the most important selling points in today's world. They open round the clock to compete and gain customers, so they are exposed to a lot of risks, which requires thinking about managing all those risks. This policy provides insurance coverage for all types of shops except for certain specific activities.

- Property insurance: Insurance of Business Interrupt/ Loss of Profits:

This policy covers loss of profits due to the decrease in the normal volume of trading resulting from the interruption of work or irregularity due to loss or damage covered under any of the property insurance policies mentioned above. The coverage under this insurance includes the increase in the cost of post-loss business as well as fixed expenses for work, and expand insurance coverage to include additional risks.

F. Engineering insurance:

This product includes a number of covered items:

- All contractors risk Contractor's all risk policy is designed to provide comprehensive protection for contractors and entrepreneurs as well as subcontractors against all risks they may be exposed to, except what is specifically excluded. Insurance coverage can be extended to include additional risks such as third-party liability insurance.
- All contractors risk This insurance covers risks associated with storage, collecting, or erection, as well as the period of machine testing and factory operation. The policy provides comprehensive coverage against all risks unless specifically excluded. Insurance coverage can be extended to include additional risks such as third-party liability insurance.
- Contractor's Equipment and Machinery:

This insurance covers sudden or unexpected loss or damage to the construction machinery and equipment used by the contractor in the workplace either by repair or replacement, whether the machinery or equipment is operating, parked or being dismantled for the purpose of cleaning, packaging or repair, or in the context of any of these mentioned operations, or in the context of subsequent installation after their operation has been successfully tested.

- Electronic Devices:

The policy covers all types of computers and electronic devices, including microprocessors, electronic information processing, communication devices, medical devices, film equipment, studios, electronic boards, etc. This insurance also covers unexpected financial damage caused by electronic devices. The policy also covers external information means, cost increase, and work-related expenses.

- Steam Boilers and Pressure Vessels:

This insurance shall indemnify the insured for loss or damage to boilers and pressure vessels by explosion or collapse in the ordinary course of business. Insurance coverage can be extended to cover the insured's surrounding property as well as the liability that the insured may be legally held for like any bodily injury or damage to the property of third parties.

- Machinery Breakdown:

This policy covers unexpected loss or unexpected financial damage to the insured machines that require repair or replacement (depends on the case) for defects in casting, defective materials, design errors, fabrication defect, faulty installation and operation, lack of skills, lack of water inside boilers, natural explosion, rupture due to centrifugal force, circuit breakage, storms or other not specifically excluded causes.

- Inventory Corruption in Warehouses:

This insurance is a form of subsequent loss coverage designed specifically to provide insurance coverage of inventory in refrigerated warehouses. This insurance covers loss or damage to the goods or commodity declared in the insurance application if they are damaged or corrupted.

- Loss of Profits:

This policy covers loss of profits resulting from interruption or irregularity due to an unexpected accident. This coverage is often sold with the machine and equipment failure policy where it covers stock corruption caused by machine failure.

G. Public Liability Insurance and other insurance:

Here comes under this product a large number of covers and policies, including:

- Burglary and Theft Insurance:

This insurance provides coverage for loss or damage to the stock, furniture, equipment, extensions, and all other contents in any store or business establishment.

- Professional Liability Insurance:

Professionals are considered to have high technical expertise in their field of work or profession, so they must pay special attention to the services provided to their clients. However, human error cannot be ignored at all times. The omission or error we may encounter in many cases result from negligence or unintentional negligence, but ultimately leads to a claim against those professionals and craftsmen as a result of causing their clients to suffer material losses.

In that sense, professionals such as architects, civil engineers, consultants, brokerage firms, financial consulting firms, lawyers, law firms, accountants, brokers and insurance agents shall have professional Liability.

- Public Liability Insurance:

This policy covers legal liability for which the insured is legally held responsible for paying a compensation to others for causing any accidental bodily injury to others (including death or illness), as well as, any loss or damages to the property of third parties arising in performing his work, career, or activities.

- Product Liability Insurance:

The manufacturers, producers, distributors or sellers of a tangible product or commodity traded over a long period of time may always be liable for the risk of legal liability. Thus, they will have to pay financial compensations to consumers or third parties as a result of causing bodily injury or damage to third parties› property due to an error or defect in the product sold with their knowledge. Usually every product (especially electrical goods, vehicles, automobiles, pharmaceuticals, foodstuffs such as food, drinks, etc.) is often exposed to such risks. Product liability insurance covers the legal liability that the insured may be required to compensate for as stated above. The insurance coverage under this section of the policy includes any costs or expenses incurred in defending any legal action in court.

- Work Accidents Insurance:

Jobs related to accidents are part of every occupation, business or industry activity especially when this activity involves manual labor. Under the Saudi Labor Law, every employer is liable to pay compensation to his employees upon death, injury, illness or disability due to work accidents. The law determines the amount of compensation payable in each of the compensable cases as in cases of death or disability, etc. This policy provides protection for the institution or any activity against all those responsibilities towards users through two main benefits:

The first: relates to insurance coverage according to the benefits that have to be paid under the Saudi Labor Law or the provisions of Islamic Sharia

The second: The second relates to the coverage according to the benefits that have to be paid under the Saudi Labor Law and / or the provisions of the Islamic Sharia in excess of or more than the compensation available under the benefits stipulated under the General Organization for Social Insurance Regulations.

- Money Insurance:

This policy covers the loss of money, remittances, checks, securities, etc. while on the job site or institution.

- Fidelity Insurance:

This type of insurance covers the financial losses that may be incurred by the insured as a result of any act of fraud or dishonesty committed by any employee in the course of his work with the insured. This policy is suitable for covering dishonesty especially for some categories of users such as cashiers, financial accountants, Stores, etc. because of their job responsibilities to deal with money or inventory.

- Director's Liability Insurance:

The directors and administrative managers liability policy provides insurance coverage for each member or administrative director against liability for which may be legally held due to an unintentional or intentional error or negligence committed or alleged to have been committed, in the course of managing the affairs of the company in his capacity as director.

H. Marine Insurance:

This type of insurance covers the loss or damage for the goods during maritime, air, or road transport whether within the Kingdom of Saudi Arabia or for those goods destined for export.

I. Energy Insurance:

It is a specialized type of insurance related to petrochemical and hydrocarbon energy and oil installations and other important energy resources such as oil, gas and electricity. It covers all risks that may be exposed to such as fire, damage, destruction and explosion. The coverage extends to include the removal of debris and environmental protection insurance.

J. Aviation Insurance:

The aviation product insurance provides a main guarantee that gives local airlines the cover of protection they need to run their activities and continue operating their flights to serve passengers and support the movement of local and international trade. Some of these main coverages are as follows:

- Aircraft Hull Liability Insurance:

  This policy covers loss or accidental damage to the aircraft on the basis of either replacement or repair of the damaged aircraft, as well as legal liability for accidental bodily injury (whether or not fatal) and any accidental damage that may affect third party property due to the aircraft itself, any passengers on board, or any objects or materials falling from it.

- Airport Owners and Operators Liability Insurance:

A branch of aviation insurance provides full protection to aircraft owner, or bodies in charge of its management, or observers of aircraft hangars, or contractors by compensating them for their legal liability to third parties such as passengers and airlines companies.

- Aircraft Hull War & Allied Perils Insurance:

This policy covers the loss or damage to the aircraft due to the risks excluded from insurance coverage, which are caused by war and allied perils under the Aircraft hull insurance policy, including extortion as well as costs or expenses incurred in the event of hijacking.

- Pilot Loss of License Insurance:

This insurance compensates any crewmember against the risk of withdrawing his license (temporarily or permanently) due to medical unsuitability resulting from an accident or illness.

Aviation Personal Accident Insurance This insurance pays for injuries that an aircraft crewmember or any of the passengers suffers, whether on aircraft board or on their way to enter it or when leaving the aircraft, as a result of an accident to the insured aircraft. Thus, after referring to the insurance products offered by the insurance companies in Saudi Arabia.

1.12 Study of Main Obligations of Insurance Company:

Learning Objective

To be familiar with the main obligations of the insurance company

The main obligations of insurance companies are as follows:

- Insurance sector, as one of the Kingdom’s key economic sectors, contributes to the economic growth and prosperity that the Kingdom is witnessing, especially in light of economic transformation and realization of Saudi Vision 2030.
- Provision of various insurance coverage for individuals and establishments against the risks they are exposed to. Performance of its duties towards the insured by providing them with the appropriate insurance coverage. It is directly responsible to the policyholders since the entry into force of the insurance policy signed with the customer.
- Provision of social and economic security and tranquility in society.

- Contribution to the implementation of development plans in the Kingdom, especially in covering the most frequent and widespread hazards in society, such as hazards of civil liability of cars, and hazards to private sector workers, whether Saudi or non-Saudi, in implementation of the Kingdom directives to make such coverage mandatory.
- Insurance companies in the Kingdom are committed to establishing a unit to accept and address complaints from beneficiaries.
- Many investments have been put into the mainstream of the Saudi economy, given that the main activities on which insurance companies are based, are underwriting risks as an insurance activity, and investment operations for premiums collected from policyholders.

1.13 Be familiar with insurance companies' operations:

Learning Objective

To be familiar with rules and procedures of the insurance operation.

After obtaining any insurance company the license in the Saudi market, it begins with the formation of the organizational and functional structure. These departments start daily work in order to provide the insurance service to insurance applicants through a number of insurance products for individuals or institutions. This service is provided through a number of standard functions including:

1.13.1 Marketing for the insurance products:

The insurance companies operating in Saudi market promote their various products to individuals and institutions through a number of marketing channels:

- Marketing through television and radio advertising.
- Marketing through newspaper ads.
- Marketing through distributing brochures that show the characteristics of each product.
- Marketing through direct contact with prospective insurance seekers through specialized visits from marketing teams.
- Marketing through popular websites.
- Marketing through the company's website
- Marketing through telephone call centers.

- Marketing through fax by sending a promotion of a specific product to potential customers.
- Participating in specialized exhibitions.
- Participating in specialized conferences.
- Holding training courses to raise awareness of insurance for some private and governmental entities.
- Promoting corporate social responsibility in local communities.
- Supporting research related to product development.
- Developing new products to meet changing insurance needs.
- Sponsoring some community activities.
- Distributing promotional gifts to insurance applicants.
- Developing an institutional identity characterized by the development and modernity.
- Social media websites and applications

1.13.2 Selling insurance products:

After the insurance company markets and promotes its insurance products through its marketing system and in a number of channels that are very similar among the insurance companies, the other standard function of insurance companies is to reach the insurance applicants in order to complete the sale through several channels to sell insurance products. We will mention some of it:

A. Direct sale:

This channel is a mean of selling insurance products through the insurance company, either directly through the direct contact with the insurance applicants or through sales representatives of the insurance company. The sales representative represents the company before potential customers, and therefore he is the mirror that reflects the image of the company he represents. He must meet certain conditions that qualify him to achieve the objectives of the company.

B. Sales through Call Centers:

Some insurance companies train some employees to sell insurance products through telephone contact with customers and meet their insurance needs.

C. Selling through websites (online sale):

The trend towards increasing reliance on modern technology is one of the most important features of the modern era.

D. Selling through insurance intermediaries:

An intermediary is a licensed person or company whose activity is limited to the insurance industry and differs from the agent as he is the agent of the insured not the insurer. The intermediary is considered an insurance expert, provides advice and concludes contracts for the insured.

E. Sale through insurance agents:

SAMA has licensed a number of agents who, for a fee, represent insurance companies, market and sell insurance policies and other services such as claims receipt to one insurance company, and all the acts usually performed by the agent for the company or on its behalf.

F. Sale through banks:

Bancassurance is one of the important channels and important strategies that all the insurance markets in the world seek to implement it in order to increase their insurance premiums and market share, as well as reduce cost of marketing, sales and insurance products prices. This is done by taking advantage of the banks networks branches across each country as one of the alternative distribution channels that supports traditional marketing channels.

1.13.3 Underwriting:

Underwriting is a primary function of any insurance company. It is the process by which the underwriter decides to accept or not to accept the insurance offer and sets the necessary conditions, price and premium. In other words, underwriting is the selection and pricing of risks, depending on the pricing tables and actuarial data. The essence of the underwriter›s role in an insurance company is to determine the risk degree of the policyholders, and to determine the prices of the appropriate insurance policies covering that risk. The insurance company may lose customers and make its competitors gain them if the underwriter›s assessment of the risks is so severe that leads the premium to be excessive and unaffordable and thus the insurance applicants flee to the competing companies. It may also have to pay non-outstanding claims if the premiums received are not sufficient to pay compensation if the underwriting is unprofessional. Now, with the help of technology, underwriters can analyze the available information and study the risk in a more systematic way. Insurance applications are often provided with loss adjuster’s reports, risk management, medical reports, pricing offices reports, and actuarial studies.

After that, underwriters must decide whether to issue the policy or not and the appropriate premium in the case of issuance. By adopting this decision, underwriters will be considered as the link between the applicants and the insurance channel sales. From time to time, underwriters of insurance companies and sales channel representatives can visit insurance applicants to clarify insurance coverage or policy terms.

1.13.4 Reinsurance:

It is the process by which the insured risk burden is transferred from the insurance company to a reinsurance company. The reinsurer compensates the insurance company for the compensation payment made to the insured if they suffered damage or loss in the event of an accident. Reinsurance is the main risk management tool, simply reinsurance is insurance for insurers. Insurers buy insurance to cover risks they cannot individually incur. Reinsurance helps the insurance industry to provide protection for a large number of risks covered by insurance including large, concentrated, and complex risks.

1.13.5 Receiving and processing claims:

All insurance companies licensed in the Kingdom of Saudi Arabia shall set up specific procedures to receive insured's claims. The company must also keep files related to the claims of the insured and divide them into paid claims, claims under consideration or settlement, and rejected claims, so that each file includes the following:

- Insurance application form and insurance offer if applicable.
- Copy of the insurance policy.
- Customer claim.
- Report of the loss adjuster, if any, and any documents necessary to substantiate the claim and determine the direct cause that eventually led to the loss.
- Documents or other insurance companies proportional share of compensation.
- Actions taken by the company and the claim status.
- A formal power of attorney given to the company by the insured to act on his behalf.
- Third party Liability for the Loss.
- Defending the insured in repudiating liability or in determining the indemnity amount.
- Final discharge signed by the customer for the paid claim.

If the insured submits a claim to the insurance company, the completion of requirements for this claim shall be verified by the claims representative who determines whether the loss is covered in the policy or excluded, especially for the insurance of individuals. . However, if the claim is large and needs a technical experience, especially in the insurance of property, projects, energy, and aviation, loss assessor is appointed to further investigation of the claim and calculation of the financial settlement.

The claims handling is the measure that shows the tangible benefit of insurance. The insured seeks to balance several elements in order to manage claims: satisfaction of the client on one hand, and on the other hand, reduction of administrative expenses, and avoidance of excessive compensation.

1.13.6 Financial operations:

Accounting and financial management of the company are considered as important operation and main functions of the insurance companies. This department has the following functions and operations:

- Providing periodic financial reports to the management and regulators as required.
- Cash flow management resulting from insurance operations premiums.
- Management of reserves and allocations for various risks.
- Follow up on the company's receivables.
- Follow up on the company's expenses.
- Follow up on the company's balance in the banks.
- Follow up on payment of claims.
- Follow up on payment of reinsurance dues.
- Pay commissions to the beneficiaries of the sale channels.
- Preparation and maintenance of accounting records.

1.13.7 Investment Process:

Insurance companies gain their profits from two sources: underwriting profits and investment profits. The Investment Department plays a very important role for the insurance company so each insurance company has to set an investment policy approved by the Board of Directors that manage the investment operations and methods of managing portfolios in accordance to the instructions of the Saudi Central Bank. While insurance companies receive premiums, they usually do not expect to pay claims for a period of time as in the protection and savings insurance companies in particular. Therefore, the insurance company invests premiums until any obligations has to be paid. The investment income has a double purpose: the first one: if they invest on a large-scale, this will make the insurance company gain the right profit. The second one: a good investment profit will allow the company to reduce the value of premiums paid by its customers, thus becoming more powerful to compete in the insurance market. For protection and savings companies, investments are a vital factor. Most protection and savings products have a role not only in income protection (as in life insurance) but also as a mean of investment.

1.13.8 Personnel and administrative processes:

The work of insurance companies is mainly based on the workers because they are the real capital of the company. Thus, insurance companies have to care about their staff by all means and follow the instructions of the Ministry of Human Resources and Social Development in terms of staff rights in full. It should be noted that the most important personnel and administrative operations are:

- Follow-up on staff management and their daily requirements.
- Follow up on employees' salaries.
- Set an employment policy.
- Set training and rehabilitation policy.
- Set and save employee files.
- Manage and protect the property of the company.
- Develop and improve job conditions.
- Develop and improve incentives and work environment.

1.14 Study of general provisions on the requirements and stages of licensing insurance and reinsurance companies:

Learning Objective

To be familiar with the general provisions on licensing requirements and stages

Regulatory and supervisory authorities, especially SAMA, within their tasks and competencies, have set bylaws and regulations for how to license and establish insurance and reinsurance companies.

Licensing of insurance companies goes through the following steps:

1-14-1 Submit a license application to SAMA, including the following:

- Application or form for license application.
- Articles of Association.
- Bylaws
- Organizational structure
- Economic feasibility study.

1.14.2 Submit a five-year business plan that includes the following:

- Types of insurance in which the company intends to operate.
- Ability to cede reinsurance treaties for the classes the company intends to reinsure.
- Product marketing plan.
- Expected expenses to start activity and financial sources needed for financing.
- Expected growth rates of activity, taking into account solvency margin.
- Expected number of employees, and plan for hiring and qualifying Saudis.
- Annual costs based on projected growth rates.
- Estimated financial statements linked to growth forecasts.
- A statement of technical bases of insurance operations and a certificate from actuaries.
- Company's branch opening plan.

1.14.3 An irrevocable bank guarantee in an amount equal to the required capital issued in favor of SAMA by a local bank, automatically renewed until the company's capital is fully paid.

1.15 Licensing of Insurance and Reinsurance Services Companies and Insurance Professionals goes through the following steps:

1.15.1 Submit a license application to SAMA, including the following:

- Fill out the application form for licensing of service provider companies.
- Articles of Association.
- Bylaws
- Organizational structure
- Economic feasibility study.

1.15.2 A three-year business plan that includes:

- Branches of insurance in which practitioner intend to conduct business.
- Expected expenses to start activity and financial sources needed for financing.
- Expected growth rates of business.
- Expected number of employees, and plan for hiring and qualifying Saudis.
- Estimated financial statements linked to growth forecasts.
- Branch opening plan.

1.15.3 An irrevocable bank guarantee in an amount equal to the required capital issued in favor of SAMA by a local bank, automatically renewed until the company's capital is fully paid.

As for insurance practitioner, i.e. natural persons licensed to practice any profession related to insurance or reinsurance business and work for self-employed professionals, they must meet the following requirements to obtain SAMA's license:

- Holding a university degree with at least five years of insurance experience or a specialized insurance certification.
- Pass the approved examination for the required profession or obtain an equivalent qualification.

1.16 Role of SAMA in the oversight of all operations carried out by insurance companies in the Kingdom.

Learning Objective

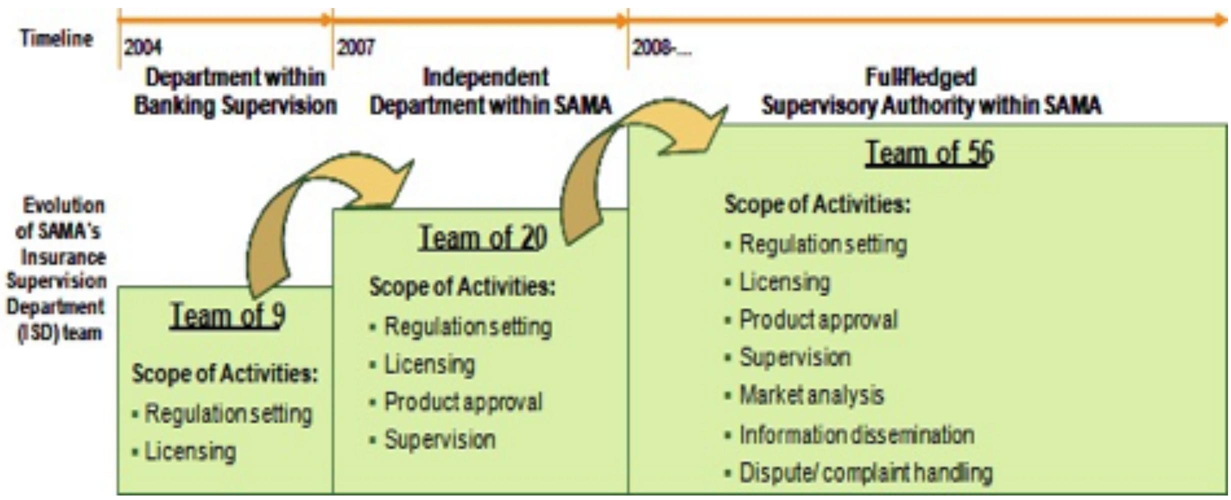
Role of SAMA in the oversight of all operations carried out by insurance companies in the Kingdom.

The insurance sector is one of the pillars of Kingdom's financial services sector, by providing risk transfer mechanisms and encouraging long-term savings, making it one of the most important factors in boosting the national economy.

The Cooperative Insurance Companies Control Law was issued by virtue of Royal Decree No. M/32 dated 02/06/1424 AH, followed by the issuance of its Implementing Regulations by the Minister of Finance's Resolution No. 1/596 dated 01/03/1425 AH. The main objective of such Law and its Implementing Regulations is to regulate the insurance sector in the Kingdom.

SAMA is entrusted with tasks of supervising and controlling the insurance sector in the Kingdom according to the Cooperative Insurance Companies Control Law. Immediately after the issuance of such Law and its Implementing Regulations, SAMA formed a team of supervisors to perform duties of supervision and control over insurance sector. Such team is currently working within a general department affiliated to SAMA, concerned with carrying out supervisory and regulatory tasks on insurance sector.

History of SAMA's Insurance Supervision Department:



Objectives of SAMA's General Department for Insurance Control are derived from the objectives of the Cooperative Insurance Companies Control Law and its implementing regulations:

- Protecting the rights of policyholders and shareholders.
- Encouraging fair and effective competition and providing better insurance services at appropriate prices and covers.
- Promoting the stability of insurance market.
- Developing insurance sector in the Kingdom, including training and job localization.

Revision questions:

Answer the following questions and check your answers in the corresponding section:

1. Define the risk in the insurance sense, and state its most important characteristics?
Answer Reference: Section 1.2, 1.3

2. Explain in brief types of economic risks?
Answer Reference: Section 1.4.2

3. Explain in brief the method of prevention as a risk management approach?
Answer Reference: Section 2.5.1

4. Compare risk transfer and insurance as risk management methods?
Answer Reference: Section 1.5.5 & 1.5.6

5. Mention the types of general insurance?
Answer Reference: Section 1.6.3

6. Compare health insurance and protection & savings insurance?
Answer Reference: Section 1.6.5 & 1.6.4

7. Specify the economic benefits of insurance?
Answer Reference: Section 1.7.1

8. What are the insurance companies and service providers?
Answer Reference: Section 1.8.2

9. What are the types of insurance services provided by the insurance sector?
Answer Reference: Section 1.11

10. What are the main engineering insurance products?
Answer Reference: Section 1.11.2 (f)

11. Explain in brief marketing of the insurance products?
Answer Reference: Section 1.13.1

12. Illustrate the main ways of selling insurance products?
Answer Reference: Section 1.13.2

13. Clarify the most important requirements and stages of licensing insurance and reinsurance companies.
Answer Reference: Section 1.14

Chapter Two

Principles of Insurance Corporate Compliance and Governance

This part of book accounts for approximately 12 out of the 50 questions of the test.

2 - Introduction:

This Chapter addresses the principles of insurance corporate compliance and governance, as it has become necessary for such companies to adopt the principles or standards of governance due to the nature of insurance industry that rely upon trust between stakeholders, so as to maintain their ability to fulfill their obligations, where insurance operations are among those stemming and crucial means across economic and financial ecosystem, with a growing role in industrial, agricultural, commercial development and other economic activities. Therefore, such companies need to have in-place effective control systems that enable them to anticipate and confront risks by establishing sound structures to promote corporate governance principles within Takaful insurance ecosystems, insofar as to conduct activities safely and realize the desired objectives. Therefore, the proper application of the concept, principles and mechanisms of corporate governance within insurance companies would drive the activation of internal and external control systems and thus reduce chances of being exposed to risks throughout operations.

2.1 Concept of Insurance Corporate Compliance:

Learning Objective

Getting familiar with the concept of insurance corporate compliance.

2.1.1 Definition of Corporate Governance:

Corporate governance is concerned with developing financial applications and practices based on the company's management and organization in a manner that preserves rights of shareholders and bondholders, company employees, stakeholders and others by investigating forms of contractual relations that link them, and using sound financial and accounting tools in accordance with due disclosure and transparency standards.

Accordingly, Governance can be defined as a set of laws, regulations and decisions that aim to realize performance quality and excellence by using appropriate and effective methods to realize plans and objectives of companies as well as financial and economic bodies. In other words, governance is a system per se, as it includes sub-systems that control the relationships between key parties that affect performance. Further, SAMA leverages governance to foster performance and define responsibilities of each employee.

The Organization for Economic Co-operation and Development (OECD) defined corporate governance as a group among the company's management, board of directors, stockholders and other shareholders. This definition reflects the distinction of corporate governance with the following characteristics:

- Discipline: Following appropriate ethical behavior, controlling the work of the board of directors, sub-committees, senior management, review and compliance.
- Disclosure and Transparency: Providing a true image of the company's activities.
- Independence: No influences or pressure.
- Accountability: Assessing and evaluating the work of the board of directors and executive management.
- The Responsible and Responsibility: Assuming responsibility towards all the company's stakeholders.
- Equity: Respecting the rights of various stakeholders in the company.
- Social Responsibility Contributing to support the interest of society.

2.1.2 Objectives of Insurance Corporate Compliance

The key objective of corporate insurance governance is to solve the problem of conflict of interest in order to drive the company's performance and provide a true and fair view of its financial position. This can only be realized through financial statements prepared in accordance with international accounting systems and standards in line with the principles of corporate governance, which allow assessing the corporate insurance performance, as per the latest methods and mechanisms, as well as identifying and correcting anomalies.

The company's corporate governance regulation must specify the role, responsibilities and work mechanism of the appointed actuary. It can be said that the actuary is qualified enough as to be an effective and essential element in the process of practicing insurance corporate governance.

Among the internal governance mechanisms of insurance companies is the board of directors, which generally comprises members outside the executive management (i.e. independent members) together with members from the executive management. The board of directors is a crucial factor and one of corporate governance mechanisms, as the board shall be qualified to exercise the supervisory and control function freely and

independently from the management in terms of organization.
Given the extensive duties of the Board of Directors, specialized committees shall be formed, while each committee shall be concerned with a specific process, including: Audit Committee, Remuneration Committee, Nominations Committee, Ethics Committee, Governance Committee, HR Committee, Executive Committee.

Fostering investor confidence and providing incentives and motives for the company's board of directors promotes objective realization, which achieves the company's interests, while imposing effective control on the company leads to more advanced competitive position among other companies. Further, the expansion of SAMA's responsibility extends oversight over all parties, including the company's board of directors, shareholders and general assembly, in addition to evaluating the performance of senior management, enhancing accountability and raising degree of confidence.

2.2 Compliance Function, Objectives, Importance and Duties:

Learning Objective:

Introduce the trainee to compliance function, objectives, importance and duties.

Compliance with laws, regulations and instructions is one of the most important factors for the success of FIs. Compliance protects the reputation and credibility of financial institutions; protects shareholders and policyholders, and provides them with safeguards against legal sanctions. Compliance is a comprehensive and multi-aspect responsibility involving all parties in FI. It starts with BOD and senior management and ends with all employees, each according to the powers and tasks entrusted to him.

2.2.1 Compliance function definition :

According to Compliance Principles for Banks Operating in the Kingdom of Saudi Arabia, compliance function in insurance companies can be defined as:
It is an independent function that identifies, assesses and provides advice, monitors and reports on risks of an insurance company's non-compliance related to its exposure to legal and administrative penalties, financial loss, or what may undermine the company's reputation due to its failure to abide by the regulations and controls or sound standards of conduct and professional practice. This function shall be applied by Compliance

Departments. The financial institution must have a compliance policy documented and approved by the Board of Directors. Such policy defines compliance function and responsibilities of employees.

2.2.2 Objectives of Compliance Function :

Compliance function in insurance companied is one of the fundamentals and factors for their success due to the essential role it plays in maintaining their reputation, credibility, interests of shareholders and policyholders, and protecting them from penalties as a result of performing or participating in the following:

- Prevention of risks, especially regulatory, reputation and financial penalties risks.
- Accurate planning and organization in cooperation with senior management to establish the principles of Sound Management Concept in order to realize and create an environment of compliance in business management.
- Consolidate relations with regulatory entities, and safeguard values and professional practices in banking institutions.
- Advise on the risks of non-compliance and work with senior management to include compliance in policies, procedures and action steps for all products and services rendered.
- Establish mechanisms and frameworks to ensure prevention of financial crimes, in particular, its responsibility for combating money-laundering and terrorism financing operations.

2.2.3 Tasks of Compliance Function :

Compliance function in insurance companied is one of the fundamentals and factors for their success due to the essential role it plays in maintaining their reputation, credibility, interests of shareholders and policyholders, and protecting them from penalties as a result of performing or participating in the following:

- Prevention of risks, especially regulatory, reputation and financial penalties risks.
- Consolidate relations with regulatory entities.
- Establish the principles of corporate governance in financial institutions.
- Establish mechanisms and frameworks to ensure prevention of crimes, in particular, its responsibility for combating financial crimes.
- Safeguard professional values and practices.

2.2.4 Culture of Insurance Corporate Compliance:

Compliance must be an integral part of the corporate culture, not just tasks of employees at compliance department. However, the financial institution will be better able to manage the risk of non-compliance if it appoints someone to manage compliance in accordance with compliance principles.

2.3 Reasons for Establishing Independent Compliance Departments or Functions in Insurance Companies:

Learning Objective:

Getting familiar with the reasons for having an independent department or function that undertakes compliance duties in insurance companies.

There are many reasons for establishing independent compliance departments or functions in insurance companies, as follows:

2.3.1 Reasons for Having Independent Compliance Departments or Functions in Insurance Companies :

- Accessing all relevant regulations and instructions as well as amendments thereto, or subsequent regulations and instructions related to insurance operations and activities.
- Developing comprehensive compliance policies and procedures, including all corporate insurance regulations, instructions and practices, to be approved by the company's board of directors.
- Conducting an annual review of all corporate policies and procedures to ensure their conformity and alignment with all laws, regulations and instructions promulgated by legislative authorities as well as to ensure compliance with application thereof.
- Updating policies and procedures periodically, to ensure that the company complies with all recent regulations and instructions related to all corporate operations and activities.
- Informing and keeping the company's senior management informed of all applicable rules and policies related to compliance, which insurance companies must comply with.
- Informing all the company's employees through the senior management of all compliance policies and instructions and any updates thereto.
- Maintaining the provision of information on a permanent and adequate basis.
- Drafting a comprehensive examination plan for all corporate business to ensure their compliance and alignment with the laws, regulations, and instructions issued by legislative authorities.

- Ensuring all the company's policies and procedures comply with all requirements in compliance regulations set by compliance department, while the Head of Compliance Department should suggest changes to be made to such policies and procedures to realize compliance in accordance with the compliance manual.
- Obtaining official directive and instructions from senior management directed to all corporate business managers, including operations and support, by setting appropriate arrangements and instructions necessary for applying the instructions and directives of the Director of Compliance, insofar as to ensure the company's full compliance with regulations, instructions, policies and procedures.
- Continuously working on establishing corporate compliance environment, raising awareness and promoting a culture of positive thinking among the company's officials and other employees, in addition to highlighting the importance of complying with the regulations while carrying out their tasks.
- Review all forms and contracts used by all insurance company's departments, as well as marketing and advertisements materials to ensure conformity with rules and instructions and insurance companies' policies. Review all insurance company's existing and new products and services and ensure that they meet the regulatory requirements.
- Cooperate with all Financial Institution's departments, external auditors and SAMA regarding rules and instructions contained in relevant reports and ensure that necessary corrective measures are taken.
- Designing and developing a system for preparing internal reports on compliance monitoring, and self-assessment of non-compliance risks.
- Producing and submitting the required compliance reports.
- Coordinating between SAMA and the insurance company with regard to compliance, and between all corporate departments and internal and external legal advisors, to ensure proper understanding of instructions and proper application thereof.

2.4 Risks of non-compliance by insurance companies with the rules, regulations and instructions.:

Learning Objective:

To be familiar with risks of non-compliance by insurance companies with the rules, regulations and instructions.

2.4.1 Risks of Non-Compliance:

The term "Compliance Risks" is defined as risks leading to statutory, legal sanctions, material financial loss, or damage to reputation an insurance company may suffer as a result of its failure to comply with all applicable laws, regulations, rules, circulars, instructions and codes of conduct applicable to its activities. Risks and repercussions of non-compliance can be summarized as follows:

- Fines, financial losses, penalties and sanctions
- Reputational damage and lack of competitiveness.
- Loss of customers and market share.
- Legal proceedings with supervisory and regulatory authorities.
- Loss of licenses and failure to obtain such licenses and approvals from regulatory authorities.

2.5 Defining the Role of Compliance Officer, and Key Supervisory Compliance Activities.

Learning Objective:

Getting familiar with the role of Compliance Officer, and key supervisory compliance activities of insurance companies.

The compliance function is responsible for monitoring the Company's compliance, at all times, with all applicable laws, regulations, and rules issued by SAMA and other related regulatory bodies, and to take necessary actions to enhance the regulatory compliance. The code of corporate governance should define the role, responsibilities and structure of compliance function.

Article (123) of SAMA's Insurance Corporate Governance Regulations indicated: The compliance function is responsible for monitoring the Company's compliance, at all times, with all applicable laws, regulations, and rules issued by SAMA and and other related regulatory bodies, and to take necessary actions to enhance the regulatory compliance.

Given the significance of establishing the principles of sound corporate management approach and adopting mechanisms that develop correct practices, and within the framework of activating the role of compliance officer, duties and responsibilities of compliance officer in insurance companies can be defined as follows:

- Ensure that insurance company comply with all laws, regulations, publications, and professional and ethical standards issued by the competent authorities or corporate management.
- Identify and assess risks associated corporate activities.
- Review corporate policies and procedures to ensure compliance thereof with applicable laws, regulations and publications.
- Develop compliance policy and procedures covering all corporate activities, relevant systems and controls, and suggest necessary changes.
- Ensure adherence to the established corporate compliance policy.
- Seek corporate compliance culture, and raise awareness on importance of compliance.
- Submit periodic reports to Audit Committee on compliance monitoring.
- Adhere to confidentiality requirements at work.
- The supervisory compliance officer shall review the following reports and express an opinion thereon:
    - Reports of External Auditor:
    - Regulatory reports issued by SAMA.
- Anti-Money Laundering and combat terrorism financing:
- Developing and updating the AML/CTF corporate insurance policy.
- Examining unusual and suspicious operations reported to him by the company's employees, together with justifications thereof.
- Notifying the Financial Intelligence Unit of suspected ML/TF operations, according to a form prepared for such purpose.
- Taking a decision on continuance of unsuspicious operations, provided that such decision includes the grounds thereof.
- Office and field supervision of compliance of all corporate branches with AML/CTF controls and directives.
- Keeping records of all suspicious and continued, as well as records of all AML/CTF training plans and programs received by employees in accordance with recordkeeping regulations.
- Issuing periodic reports on AML/CTF activities.

2.6 Requirements of Regulatory and Supervisory Authorities regarding the Application of Supervisory Compliance Program:

Learning Objective:

Getting familiar with the requirements of regulatory and supervisory authorities regarding the application of supervisory compliance program.

There are several basic requirements for the regulatory and supervisory authorities regarding the implementation of supervisory compliance program, while compliance policy can be used as a marketing tool, as the information required to identify customers for supervisory purposes, can be used to increase available customer-related information for selling purposes, and also to promote trust. Therefore, compliance function works to find a balance between fulfilling external requirements e.g. application of laws and controls, and internal purposes e.g. avoiding negative impression, fostering reputation and avoiding license-related financial fines and penalties.

Components and pillars of insurance corporate compliance program must include the following, as a minimum:

2.6.1 General Compliance Policy:

A description of the general compliance policy approved by the board of directors and applied to all personnel of the insurance company. The policy shall define the role and responsibilities of the board of directors, the senior management and all employees with respect to compliance and penalties in case of non-compliance. The policy shall also encourage employees to report any breach of compliance requirements.

2.6.2 Required resources to manage the compliance program:

A description should be made of required resources to provide adequate expertise and knowledge for the implementation of the compliance program.

2.6.3 Compliance employees' responsibilities:

The responsibilities of the compliance employees and other staff shall be defined in order to achieve the compliance objectives and ensure accountability for violation of compliance requirements.

2.6.4 Compliance control:

A compliance assessment plan, shortcomings documentation and corrective plans shall be described to ensure application of laws and regulations; and avoid violations.

2.6.5 Communication and training methods:

Methods shall be described for communicating compliance requirements to all staff of the insurance bank. A training plan on compliance shall be in place to ensure that each employee receive necessary training courses according to his related job to enable him perform his business in line with ethical standards, laws and regulations.

2.7 Code of Professional and Ethical Conduct Necessary to Restrict Improper Behavior and Maintain Reputation and Integrity of Insurance Companies:

Learning Objective:

Getting familiar with code of professional and ethical conduct necessar to restrict improper behavior and maintain reputation and integrity of insurance companies.

2.7.1 Code of Professional and Ethical Conduct Necessary to Restrict Improper Behavior and Maintain Reputation and Integrity of Insurance Companies:

Insurance company shall develop and adopt a code of professional conduct after being approved by its board of directors to ensure corporate activities are carried out in a fair and ethical manner. The company's code of professional conduct must cover, at a minimum, the following aspects:

- Conflicts of Interest
- Integrity and honesty
- Compliance with relevant laws and regulations.
- Confidentiality of information
- Fair dealing
- protect the assets of the company
- Guiding principles of ethical behavior
- Mechanism for reporting irregular or unethical behavior

2.7.2 Basic Requirements for Sound Professional Conduct in Insurance Companies:

The code of professional conduct charter is a set of rules that define the social patterns, rules, responsibilities, or good practices of an individual or an organization regarding concepts of morality, honesty, integrity and honor. Such charter should serve to achieve the welfare of key stakeholders, while respecting the rights of all parties involved in conducted activities. Professional conduct in every public or private entity is the key to the success of such entity. Therefore, KSA Council of Ministers was keen to approve the Code of Conduct and Public Service Ethics in 1437 AH, based on the fact that such Code serves as a framework that enhances values of civil service, raises level of quality, develops performance and serves citizens. Further, such Code sheds light on the standards, ethics and values that a public employee must possess while carrying out his duties, as the Code forms part of work requirements.

Given the nature of activities at financial institutions in general and insurance companies in particular, we find that practicing insurance activity and covering risks to which the insured are exposed are based on special traditions and morals that are at the same time an integral part of the traditions and public morals. Therefore, insurance companies in particular must be an honorable model of integrity and trustworthiness.

Hereinafter, we discuss the basic requirements for sound professional behavior in financial institutions, which have special features:

2.7.3 Objectives of Proper Code of Conduct:

- Urging honest behavior and observance of ethical values that will impact positively the financial institution.
- Maintaining a work environment that ensures dignity and respect of everyone who works in the financial institution.
- Ensuring compliance with the laws, regulations, supervisory controls, rules and circulars related to the financial institution's activity.
- Ensure optimal utilization of the financial institution's assets.
- Avoiding risks that could affect the reputation and public image of the financial institution as a result of improper or unethical behavior.
- Consolidating the impression that the financial institution is adopting the highest standards of integrity in all its dealings with third parties.
- Promoting corporate values and encouraging cooperation and coordination between the financial institution's corporate departments, insurance sector and regulatory bodies.
- Establish rules that will support mutual benefit between members of the financial institution and customers and avoid conflicts of interest and reputational damage.

2.7.4 Charter Elements:

A. Authorities

The Charter must specify the responsible authority as follows:

- Adoption of the Charter and obligation of financial institution employees.
- The entity to which the violations of the Charter are escalated.
- The entity that investigates all violations of the Charter.
- The entity that has the right to take disciplinary action in case of violation of the Charter.

B. Risks

- Reputation risk: Violating the charter can damage the financial institution's reputation and public image, creating reputational risks.
- Non-compliance risk: Violating laws, regulations, rules and procedures relating to the financial institution activity may lead to sanctions against the financial institution.
- Legal risks: Financial institution customers affected by the non-compliance of employees with the Charter may resort to legal action against the financial institution.

C. General behavior and ethical behaviors

- All employees must demonstrate integrity, honesty, credibility, and loyalty to the financial institution. They must assert these qualities through their relations with their colleagues, superiors, and customers in the financial institution, and distance themselves from suspicious attitudes and behavior, whether financial or not.
- All employees must deal with their colleagues professionally, with respect, appreciation, and understanding, providing the right environment for improved performance and efficiency.

D. Adherence to laws, rules, regulations and circulars

- All employees must abide by all relevant laws, regulations and procedures in KSA.
- All employees must comply with all policies, procedures, and standards pertaining to the financial institution.
- All employees must act with dignity and honesty.
- Any transaction performed on behalf of the financial institution that contravenes the provisions of laws, regulations, rules and procedures of any State shall be prohibited.
- Employees are strictly prohibited from receiving any form of bribery or bribing others to obtain undue rights.

• Employees are prohibited from engaging in any transactions involving fraud or any form of violation of others' rights.

E. Conflicts of Interest:

- Means any situation in which an employee or a person to whom he/she is related and the legal entities owned, contributed or administered by them have a material or moral interest that is in absolute or relative conflict with the integrity, independence or preservation of the financial institution assets required by his or her position or function, or is grounds for illicit gain for himself or the person associated with him/her. The financial institution shall adhere to the following:

• The Board shall take all reasonable measures to identify, avoid or deal with cases where there is a conflict of interest that could be detrimental to the financial institution's interest.

• In cases where shareholders have control over the appointment of board members, board members shall perform their duties towards the financial institution independently of the entity appointed them in the board. In all cases, they must act in the interest of the financial institution, which achieves confidence in the financial institution and the integrity, objectivity and neutrality of the Board.

• In the event of a conflict of interest, the employee shall disclose such conflict of interest and take the necessary procedures to prevent any harm to the financial institution.

• The financial institution shall not directly purchase, sell or lease assets from any employee except if they are beneficial to it, and this shall be carried out impartially.

F. Transactions with Related Parties

• Transactions with related parties means the transfer of assets or obligations and provision of products or services among the related parties.

• All related transactions shall be subject to the financial institution policy in accordance with the governing laws, regulations and procedures.

• Transactions with related party shall be disclosed in accordance with the International Financial Reporting Standards, provisions of the law, regulations and procedures issued by SAMA.

G. Confidentiality of information

- Confidentiality of information means all information not classified for public publication and includes any information that may be useful to competitors or harmful to the financial institution or its customers. Examples of such information include:

• Information that is not classified for publication on the company’s current or planned financial position, marketing programs, services and research.

• Information that is not classified for publication on potential transactions with other parties, and information on customers, suppliers and various stakeholders with the financial institution.

- All employees and officials of the financial institution shall not disclose, directly or indirectly, any confidential information they are aware of by virtue of the nature of their work.
- All employees and officials are prohibited from using confidential information for their own benefit or for the benefit of persons or entities outside the financial institution.
- Employees and officials shall not disclose any confidential information concerning the financial institution, its customers or the parties with which the financial institution is dealing, whether during or after service, except with the consent of the concerned entity.

H. General behavior and job discipline

- All employees and officials must adhere to the highest standards of job discipline and good dealings with other employees in the financial institution.
- All employees and officials of the financial institution shall be prohibited from using, consuming, selling, distributing or dealing in any way with alcoholic beverages within the financial institution, or anywhere they are working in the financial institution.

I. Provision or Receiving of Gifts

- As a general principle, all employees and officials must refrain from accepting gifts, whether in cash or in kind, from the financial institution’s customers or those dealing therewith.
- Low-value gifts may be accepted. This value is determined by the concerned entities within the financial institution, taking into account the difference between the administrative levels in their determination.
- Upon receipt of a gift in excess of the prescribed amount by an employee or official, he/she must complete a form addressed to the concerned entity, accompanied by the gift together with delivering the gift to the human resources sector.
- The competent authority shall be notified of any offers, invitations, gifts, money, services, hospitality or other benefits which may affect the independence of the concerned employee in making his decisions.
- Workers in certain sectors/departments/divisions are prohibited from receiving any kind of gifts, particularly in the sectors of administrative support, risks, credit follow-up, compliance, human resources, internal audit and legal department.

2.8 Main Topics of the Insurance Corporate Governance Regulation.

Learning Objective:

To be familiar with the main topics of the Insurance Corporate Governance Regulations

In accordance with the Insurance Corporate Governance Regulations issued by SAMA, the most important topics covered by the regulations, which are divided into three parts, are:

2.8.1 Part 1: Introduction

The introduction deals with the basic definitions of insurance corporate governance, the most important of which are:

- Board of Directors (the Board)
- Chairman of the Board (Chairman)
- Chief Executive Officer (CEO)
- Company (Companies)
- Related Company
- Related Persons
- Significant Shareholders
- Executive Board Member
- Non-executive Board Member
- Independent Board Member
- Senior Management (Management)
- Senior Positions
- Stakeholders
- Compliance Measures
- Non-compliance

2.8.2 Part 2: General Provisions:

This part addresses basic principles of insurance corporate governance, for example:

- Accountability
- Disclosure and Transparency
- Fitness and propriety
- Independence
- Conflicts of Interest
- Remuneration

2.8.3 Part 3: Specific Provisions

This part comprises six sections, dealing with the rules and principles of governance of many insurers-related parties, namely:

- Section 1: Shareholders
- Section 2: Board of Directors
  - Chairman of the Board
  - Members of the Board
  - Secretary of the Board
- Section 3: Board's Committees
  - Executive Committee
  - Nomination and Remuneration Committee
  - Audit Committee:
  - Risk Management Committee
  - Investment Committee
- Section 4: Control Functions
  - Risk Management Function
  - Internal Audit Function
  - Compliance Function
- Section 5: Appointed Actuary
- Section 6: Senior Management

2.9 IAIS International Principles of Governance :

Learning Objective:

To be familiar with IAIS International Principles of Governance

The International Association of Insurance Supervisors (IAIS) has unveiled a set of mechanisms by which governance is applied in insurance companies, namely:

- Precise definition of responsibilities and company’s system, board of directors, general manager, management committees
- Internal Control
- Transparency and external control
- Transparency and Disclosure
- Accountability

International insurance bodies have introduced a set of internal and external principles and mechanisms to achieve the governance of insurance companies, with a view to resolving conflicts of interest in an effort to activate the company’s performance and to establish a true picture of its financial position. This can only be done through financial statements prepared in accordance with international accounting systems and standards, which are in line with the principles of institutional governance, and which allow the evaluation of the insurance company’s performance in accordance with the latest methods and ways, and the identification and correction of deviations.

These mechanisms are divided into two groups, namely external governance mechanisms in insurance companies, such as external auditing, whereby the external auditor will render an opinion as to whether the statements on the financial position of the company have been prepared in accordance with the established sound standards. The audit also extends to the actuary’s reports.

Moreover, for the actuary, the corporate governance regulations must specify the role and responsibilities of the designated actuary and his/her mechanism of work, and the actuary has the specifications to make him/her an effective and essential element in the corporate governance practice.

The internal governance mechanisms of insurance companies are the Board of Directors. The Board is composed of members outside the executive management, known as independent members, and members from within the executive management, which is an important factor and a mechanism of corporate governance, as the Board is qualified to exercise the function of oversight and control board freely and in a manner that is independent of management from an organizational point of view.

Due to the various tasks entrusted to the Board, specialized committees are formed, each with a special process, including the Audit Committee, Remuneration Committee, Appointments Committee, Ethics Committee, Governance Committee, Human Resources Committee, Development and Strategy Committee and Assets and Liabilities Management Committee.

2.9.1 Role and functions of the Insurance Companies Governance Committee :

The Insurance Companies Governance Committee shall periodically review the decisions and instructions issued from time to time by the regulatory authorities regarding governance rules and practices, as well as monitor the implementation of governance practices, rules and principles.

It also recommends to the board the number, composition and powers of the committees and how to control them, as well as the periodic inspection and measurement of the facilities' governance tools and their development, in addition to raising the awareness of the board members, executive management and all employees on the principles of governance, and ensuring that the board members receive training and continuous rehabilitation.

2.9.2 Role of the Internal Audit Committee in control of insurance companies:

The Internal Audit Committee is an independent activity performed by a specialist within the insurance company and an effective means to assist the management in verifying the implementation of administrative policies that ensure the protection of assets and ensure the accuracy of statements contained in books and accounting records, aimed at achieving the greatest productivity efficiency.

The internal audit assists the insurer in achieving its objectives, confirming the effectiveness of internal control, and working with the Board and the Risk Management Committee to manage and control risks in the corporate governance process by assessing and improving the internal operations of the insurer, and achieve internal control as a result of its independence, affiliation with Chairman of the Board and contact with the Chairman of the Risk Management Committee.

2.9.3 Role of the Risk Committee in Governance of Insurance Companies

The insurance company's Board uses the risk committee to improve corporate governance, ensure more effective identification of company risks, and protect stakeholders' interests, ensure that the board mobilizes all its efforts towards the strategy through which the company's additional value is achieved within an effective regulatory system, as well as ensure that regulatory and supervisory controls are adequately and effectively implemented. International insurance bodies have agreed on a set of principles and standards for the application of insurance corporate governance. Namely, the precise definition of responsibilities and corporate system, board of directors, general manager, management committees, as well as internal control, transparency and external control, as well as transparency and disclosure, and accountability.

2.10 Insurance corporate governance provisions (accountability, disclosure, etc.).

Learning Objective:

To be familiar with insurance corporate governance provisions (accountability, disclosure, etc.).

According to the Insurance Corporate Governance Regulation issued by SAMA, the most important provisions of the Insurance Corporate Governance can be presented as follows:

2.10.1 Accountability:

- The governance structure of the Company should reflect the accountability of the Senior Management to the Board and the accountability of the Board to the shareholders and other Stakeholders, through relevant internal systems and policies.
- The Board of Directors is ultimately accountable and responsible for the performance, conduct, and regulatory compliance of the Company. Delegating authority to Board committees or Senior Management shall not absolve the Board of its responsibilities. Furthermore, the Board is responsible for the performance of third parties engaged to

perform jobs or manage functions.

2.10.2 Disclosure and Transparency

- The Board shall lay down written formal policies and procedures for disclosure, specifying, at minimum, the types of information to be disclosed, means and frequency of disclosing information, and the process to ensure the quality, adequacy, and timeliness of disclosure, in accordance with the requirements of applicable laws and regulations.
- The Board is responsible for ensuring an appropriate level of transparency and timely and adequate disclosure of material events relating to the Company's financial situation and performance, risk exposures and risk management, and corporate governance.
- The Company shall ensure that the disclosed information is comprehensive, meaningful, relevant, timely, consistent, reliable, and accessible by public without undue expense or delay.
- The Board shall provide the general assembly with a report containing comprehensive and objective assessment of the Company's situation and performance, at least on an annual basis, including but not limited to the following:

  A. Analytical review of the Company's financial performance during the last period.

  B. Key decisions made and their impact on the Company's performance and position.

  C. Assessment of the Company's strategy and financial position.

  D. Names of any joint stock company(ies) in which a member of the Company's Board is a board member.

  E. Any punishment, preventive restriction or penalty imposed on the company by any judiciary, supervisory or regulatory body.

  F. Any punishment, preventive restriction or penalty imposed on any board member by any

  G. Judiciary, supervisory or regulatory body if it is related to the company.

  H. Assessment of potential risks and how such risks are being managed.

  I. Projections of future performance.

- In addition to any other applicable disclosure requirements by SAMA or other regulatory bodies, the Company's annual report shall include the following information (regardless of order):

A. For the Board: functions, composition, names of the chairman and vice-chairman, dates of current term start and end, number of Nonexecutive Independent Board Members, number of meetings held during the period, date and attendance of each meeting, and details of remuneration for each of the Board members.

B. For each Board member: Name, classification (Executive, Non-Executive, or Independent), other companies in which he or she acts as a Board member, represented entity (if applicable), other positions held within the Company (if applicable).

C. For each Board committee: Name of the committee, its functions, its members (classified as Chairman, Executive Board Member, Nonexecutive Non-independent Board Member, Non-executive Independent Board member, or non-Board member), number of meetings held during the period, date and attendance of each meeting, members' remuneration for serving in the committee.

D. Profiles of members of senior management (including name, position, qualifications, and experience of each senior manager)

E. Total compensation and remuneration paid to the Board members, five highest-paid members of Senior Management (the executive chairman and the financial director if they are not among those highest paid members) during the period (divided into salaries, allowances, bonuses, and any other components), in addition to a description of any performance-linked incentives available for members of Senior Management, in addition to CEO and the Financial Director, if not included.

F. Ownership in the Company (direct and indirect) by Board members and members of Senior Management, and any changes of their ownership over the last year as listed in the approved shareholders' register.

G. Descriptions of transactions with any related-parties, including Significant Shareholders and members of the Board and Senior Management, that took place during the period, and how such transactions are or were approved.

H. Any potential cases of conflict of interest and how they were addressed.

I. Names of all Significant Shareholders and their ownership in the Company.

J. Results of the annual audit of the effectiveness and efficiency of the internal control system of the Company.

K. Statement on the Company's compliance with the requirements of this Regulation, along with the justification for any instances of noncompliance.

- The Company shall make available to its shareholders, and on the internet, its code of corporate governance and annual reports.
- The Company shall not announce any anticipated actions that require SAMA's prior approval or non-objection, before obtaining the actual approval or nonobjection, taking in consideration all related laws and regulations.

2.10.3 Fitness and Propriety :

- Members of the Board, Board committees, and Senior Management shall be trustworthy and shall have the integrity, competency, knowledge, and experience to fulfill their respective roles and shall comply with all laws, regulations, and rules issued by SAMA at all times. In particular, requirements for appointment to leadership positions in financial institutions subject to the supervision of SAMA.
- Significant Shareholders shall be of good conduct and reputation, financially sound, with no convictions related to committing any action involving moral dishonesty or contravention of laws in the Kingdom of Saudi Arabia or any other jurisdiction.
- All appointments to senior positions including as members of the Board of Directors and its committees shall be made in accordance with SAMA's Requirements for Appointments to Senior Positions in the Financial Institutions.
- The nomination and remuneration policy followed by the Company shall have formal and rigorous standards and procedures to continuously monitor and assess the fitness and propriety of Board members, members of Board committees, members of Senior Management, and shall immediately notify SAMA of any information or circumstances that may be relevant to assessment of fitness and propriety of these persons within a maximum period of (3) three business days from the day of obtaining the information or from the day of change occurrence.

2.10.4 Independence:

- The governance structure of the company shall support independent decision making throughout the organization by, for example, establishing clear separation of duties between the Board and the Management, enhancing the independence of control functions, and controlling the risk of conflict of interest.
- The Board should leverage the services of independent external parties to provide assurance on the adequacy and effectiveness of the governance structure and processes of the Company and on other technical areas, where the Board might lack relevant expertise.

2.10.5 Conflict of Interest:

- The Company shall take reasonable measures to identify cases of potential conflict of interest and have clear written procedures for dealing with those cases in a fair and transparent manner.

- Members of the 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, to be renewed each year. The activities to be performed through general bidding, where the member is the best bidder, shall constitute an exception to this rule. Members of the Board and Senior Management shall notify the Board of any personal interest they may have in the business and in contracts entered into by the Company. The notification shall be noted in the minutes of the Board meeting. Board members with a personal interest shall not vote, neither in the general assembly nor in the Board meeting, on the resolution to be adopted with regards to their personal interests. The Chairman of the Board shall notify the general assembly, when convened, of the activities and contracts where a member of the Board and Senior Management may have a personal interest and their amounts, and shall attach to such notification a special report prepared by the Company's external auditors.
- No member of the Board or Senior Management shall, without a prior authorization of the general assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the Company, or trade in any branch of the activities carried out by the Company.

Members of the Board and Senior Management who own an interest in an Insurance Service Provider (e.g. Brokers, agents, etc.) shall:

A. Disclose to the Board their interest in the insurance-related company, in writing, at the earliest opportunity.

B. Never encourage or solicit dealings with the company in which they hold an interest.

C. Refrain from voting in decisions related to dealings with the company in which they hold an interest.

Additionally, the Company shall notify the general assembly, when convened, of all businesses with any insurance-related company in which a member of the Board or Senior Management has an interest, and shall attach to such notification a special report prepared by the company's external auditors.

- The Chairman shall provide the general assembly with details of insurance contracts in which members of the Board or Senior Management or their related parties have an interest, including the line of business, size, and associated losses, if any.

2.10.6 Remuneration:

- The Company's articles of association shall specify the remuneration for the Chairman and Board members for their services. Board members remuneration can be modified only by the extraordinary general assembly.

- The Board shall propose the remuneration package for the Board, based on the recommendations of the Nomination and Remuneration Committee, in accordance with applicable laws, regulations and rules and with the conditions set by the general assembly, subject to the approval by the general assembly.

The Company shall ensure that all written details of the proposed remuneration and considerations are accessible to the Shareholders prior to the general assembly at which the remuneration and considerations shall be put to voting.

- The Company shall have a remuneration policy, covering all levels and categories of employees, whether regular or contractual. The remuneration policy shall address the following at minimum:
  A. Objectives of the compensation scheme (with focus on promoting effective risk management and achieving financial soundness and stability of the Company).
  B. Structure of the compensation system (including key determinants of compensation, alignment of compensation with risk taking, etc.)
  C. Determinants of the mix of remuneration components (fixed and variable components; cash and noncash benefits, etc.).
  D. Linking compensation with performance
- The Board shall be responsible to ensure that the compensation level and structure:
  A. Is fair.
  B. Is aligned with the Company's objectives
  C. Encourages prudent behaviors and does not induce taking high risk transactions to achieve short-term profits, and it complies with the Company's risk management policy approved by the Board.
  D. Does not cause any conflict of interest that might negatively impact the Company's performance.
  E. Achieves the interests of policyholders, shareholders and the Company's long-term objectives.
- The Company shall have a performance measurement system in place to evaluate and measure the performance of its employees at various levels, in an objective and formal manner. The performance measurement of Senior Management, in particular, shall be based on the longer-term performance of the Company, and not based on only one year's performance.
- The nomination and remuneration committee shall ensure that an annual remuneration review (internally through the internal audit function or externally commissioned by a specialized firm) is conducted independently of executive management.

- The remuneration structure of employees working in control functions (such as internal audit, and compliance) shall be designed to ensure objectivity and independence of these functions. In this regard, it should be ensured that the executive management of the company is not intervening in the process of performance measurement and compensation determination of such employees.
- Members of the Board and Senior Management (except sales managers) shall not receive any commission or rewards on sales-related activities. Furthermore, no variable component of the compensation for members of the Board and Senior Management (except for sales managers) shall be directly based on premium volume.

2.11 Insurance Corporate Governance Policy:

Learning Objective:

To be familiar with the basic purpose of insurance corporate governance.

Saudi insurance companies resort to applying governance standards and principles. The application of these principles and standards is due to several reasons, including their desire to obtain a credit rating from international rating agencies, which require these companies to apply international principles for insurance companies' governance. Furthermore, insurance company shareholders seek to ensure that sound corporate governance standards are followed in an effort to maximize productivity and improve performance, as well as technical and financial results, and to abide by the laws and rules governing insurance activity, and to specify the terms of reference accurately, in addition to maintaining the company's ability to meet its obligations and enhance its financial solvency. The Insurance Corporate Governance Regulations issued by SAMA in respect of compliance states:

- The compliance function is responsible for monitoring the Company's compliance, at all times, with all applicable laws, regulations, and rules issued by SAMA and other related regulatory bodies, and to take necessary actions to enhance the regulatory compliance.
- The company's governance regulations must define the role, responsibilities, and structure of the compliance control function.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. Corporate governance has several characteristics, mention them in brief?
Answer Reference: Section 2.1.1

2. Explain in brief the main objective of insurance company governance?
Answer Reference: Section 2.1.2

3. Explain in brief the objectives of compliance function in insurance companies?
Answer Reference: Section 2.2.2

4. Mention in brief the risks of non-compliance in insurance companies?
Answer Reference: Section 1.4.2

5. Specify five duties and responsibilities of the Compliance Officer?
Answer Reference: Section 2.5.1

6. The insurance company's Code of Professional Conduct covers a minimum of ethical aspects of professional conduct, mention three of them?
Answer Reference: Section 2.7.1

7. Explain in brief the objectives and elements of the Charter for Sound Professional Conduct in Financial Institutions?
Answer Reference: Section 2.7.3 & 12.7.4

8. Among the elements of sound professional conduct is risk management of three risks, mention them?
Answer Reference: Section 2.7.4(b)

9. Mention in brief IAIS international principles of governance?
Answer Reference: Section 2.9

10. Explain in brief the role and functions of the insurance companies' governance committee?
Answer Reference: Section 2.9.1

11. Disclosure and transparency are a provision of insurance corporate governance. Review it in brief?
Answer Reference: Section 2.10.2

12.Explain in brief conflict of interest as a provision of insurance corporate governance?
Answer Reference: Section 2.10.5

Chapter Three

Principles of commitment to Anti-Money Laundering and Countering Terrorism in the Kingdom of Saudi Arabia in Insurance Companies

This part of book accounts for approximately 25 of the 100 questions of the exam.

3 - Introduction:

This Module outlines the issue of money laundering and terrorist financing as one of the key issues that pose a real threat to financial ecosystem and insurance companies, given the increase in crime rates and funds generated thereof. The Module also identifies the concept, types, and methods of combating fraud in insurance companies.

3.1 Nature, stages, risks and methods of combating money-laundering and terrorism financing.

Learning Objective

To be familiar with the concept, objectives, stages and risks of ML operations.
To be familiar with the nature, stages and risks of TF operations.
To be familiar with methods of Combating Money laundering and Terrorist Financing.

3.1.1 Concept of Money Laundering Processes :

In accordance with the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) Guide issued by AML/CTF Department in the Saudi Central Bank dated RABI' I 1441H (November 2019), A money laundering offence shall be deemed a separate offence from the predicate offense. A conviction for the predicate offense shall not be necessary for a conviction for money laundering or to establish that funds are proceeds of crime, whether the predicate offense was committed inside or outside Saudi Arabia. The intent, knowledge, or purpose of committing the money laundering offence shall be inferred from objective factual circumstances of the case. Anyone who commits any of the following acts shall be considered to have committed a money laundering offence: Transfer, transportation, or performing of any transaction with funds while knowing that they are proceeds of crime in order to conceal or disguise the illegitimate origin of those funds or to assist a person involved in the predicate offense that generated those funds to evade the consequences of committing such crime. Acquiring, possession or use of funds with the knowledge that they are proceeds of crime or from an illegal source.

1. Concealment or disguise of the nature, source, movement, ownership, place, manner of disposition of, or rights associated with funds that the person knows are

proceeds of crime.

2. The attempt to commit any of the acts stated in Paragraphs (1, 2 and 3) above or participation in those acts by means of agreement, assistance, incitement, counseling, advice, facilitation, collusion, plotting, or concealment.

A legal person shall be considered to have committed a money laundering offence if any of the acts mentioned above was committed in its name or for its account. Criminal liability of a legal person shall not exclude the criminal liability of its chairpersons, members of its boards of directors, its owners, employees, authorized representatives, auditors, or any other natural person who acts in its name or for its account.

A. Definition of Money Laundering:

Article (1) of Money Laundering Law issued by SAMA defines money laundering as:
The commission or attempt to commit any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source.

The Law defines **Funds** as: as Assets, economic resources or properties of any value or type, however acquired, whether material or immaterial, tangible or intangible, movable or immovable, along with documents, deeds, transfers, letter of credits of any form, including electronic or digital systems and bank credits that evidence ownership or interest therein, in addition to all types of commercial papers, securities, bonds and bills, or any interest, profit or other income generated from such funds.

This law defines **proceeds** of crime as: The funds directly or indirectly obtained or acquired from or through the commission of a sanctioned offense, whether within or outside the Kingdom, including any funds transferred or converted wholly or partially into similar proceeds.

Financial Institution (FI): Any KSA-based establishment that executes one or more of the financial activities or operations. Implementing Regulations of the Law provide for the activities or operations executed by the financial institutions for or on behalf of the customer.

In accordance with the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) Guide, it shall be considered to have committed a money laundering offence who conduct any of the following acts:

1. Transfer, transportation, or performing of any transaction with funds while knowing

that they are proceeds of crime in order to conceal or disguise the illegitimate origin of those funds or to assist person involved in the predicate offense that generated those funds to evade the consequences of committing such crime.

2. Acquiring, possession or use of funds with the knowledge that they are proceeds of crime or from an illegal source.

3. Concealment or disguise of the nature, source, movement, ownership, place, manner of disposition of, or rights associated with funds that the person knows are proceeds of crime.

4. The attempt to commit any of the acts stated in Paragraphs (1, 2 and 3) above or participation in those acts by means of agreement, assistance, incitement, counseling, advice, facilitation, collusion, plotting, or concealment.

B. Objectives of Money Laundering Operations:

By laundering funds acquired in an illegal way, criminals aimed at:

– Changing original nature of these funds.

– Making it more difficult to know source of funds.

– Making it more difficult for Security Authorities to track such funds.

– Re-utilizing such funds to make them seem as legitimate and acquired from legal source.

– Reintegrating and investing such funds in legitimate economic business.

C. Stages of Money Laundering Processes:

Money Laundering Processes go through three stages as follows:

- Placement: In this stage, illegally obtained funds are introduced into the financial system, with the aim of depositing cash resulting from illegal activities into the financial system in a manner that does not attract attention. This is usually achieved through financial institutions when a customer or a person acting on their behalf engages in any of the financial activities and transactions, including acceptance of cash deposits, currency exchange, purchase of shares, and conclusion of finance contracts or protection and/or savings insurance contracts, without taking sufficient preventive measures by the financial institution to protect itself from money laundering risks.

- Layering: It is the stage in which funds are transferred and moved with the purpose of concealing their origin. The aim is to disguise the illegal source of the funds introduced into the financial system. This stage may involve sending wire transfers to other financial institutions, purchase and sale of investments and financial instruments, cancellation of finance contracts or protection and/or savings insurance policies during the free look period, fraudulent investments, or business schemes.

- Integration: In this stage, funds are brought into the economy again so that it becomes difficult to distinguish them from funds of legitimate origin. The aim is to legitimize illegal funds and integrate them into the domestic or global economy, through the purchase of financial assets, shares, or luxury goods or the investment in real estate

D. Risks of Money laundering processes:

- Economic Effects:

- **Economic distortion and instability:**
  - A money launderer usually invests his money in activities that are not necessarily of economic benefit to the country in which money is placed, as their goal is to hide the source of money, not profit
  - Economic growth is also affected if such funds are invested in entire sectors for short-term interests and then abandoned, causing the collapse of those sectors and damage of economy.

- **Higher Inflation Rate:**

ML contributes to an increase in the general level of prices or inflation in aggregate demand in society accompanied by a deterioration in purchasing power of money. Due to ML processes and associated movement of funds through multiple banks worldwide, it leads or contributes significantly to the expansion of international liquidity, and therefore can result in inflationary pressures, and can lead to a widening of the gap between supply and demand of goods and services, and it is also difficult to overcome or narrow them down.

- **Lower National Income:**

ML operations have a negative impact on the distribution of national income because the source of such money is usually illegal. The flight of funds outside borders also increases tax burden on individuals with legitimate incomes, because the state is forced to impose new taxes or increase current tax rate to fill the shortfall caused by such flight of funds, which means increasing burdens on those with legitimate incomes in society.

- **Price Fluctuations in Stock Markets and Disreputation of Financial Markets:**

In the event that illegal money to be laundered enters the stock market, it is bought and sold at speculative prices away from the real market prices of stocks, which leads to fluctuation and instability of financial markets, and is reflected in destabilization of confidence in the financial markets.

- Social Effects:

- **Higher Unemployment Rates:**

ML operations are closely related to the spread of unemployment in society; The smuggling of funds abroad through banking and other channels and their laundering leads to the transfer of part of national income to other countries, and then the countries from which the capital transferred are unable to spend on investments necessary to provide job opportunities for citizens, and thus face the risk of unemployment in light of the annual increase in number of school and university graduates, as well as uneducated job seekers, which exacerbates the problem of unemployment. Therefore, money laundering and unemployment rates in both developed and developing countries cannot be separated.

- **Lower Standard of Living:**

ML operations affect the distribution of income on members of society, increase poor people, widen the gap between them and the rich, which leads to negative social effects as a result of poor income distribution, which leads to an imbalance in the social structure and exacerbates the problem of poverty and a low standard of living.

- **Higher Crime and Corruption Rate:** -

  - Weakening of financial institutions (Collapse of the European Union Bank, the Bank of Credit and Commerce scandal, collapse of Barings Bank in 1995).
  - Risks to state's reputation (Limiting global legitimate opportunities, depriving state of donor support).
  - Corruption of society morals (Drugs, prostitution, bribery, illegal arms trafficking, etc.), and thus raising social costs (Treatment of addicts, etc.).

- **Emergence of ML-Specialized Gangs:**

  The spread of ML operations in a specific area leads to formation of a specialized criminal gang that produces other gangs and buys and recruits the weak-spirited. This could lead to formation of a criminal organization that destabilizes security and tranquility and increases the crime rate in general.

- ML Political Risk

- **Breaching and Corrupting Government Structures:**

This illegally acquired money may also affect the political structure and its representatives, especially in countries with economic and political instability, where it finances electoral propaganda aimed at taking over parliamentary functions, which pushes money launderers to parliaments whose main job is to lay down legislation and monitor government actions. They influence the work of such councils to serve their interests, and gain parliamentary immunity, so they are safe from criminal accountability.

3.1.2 Nature of TF processes

Anti-Money Laundering Law defines terrorist financing crime as follows:

Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, from a legitimate or illicit source, or to engage in any banking, financial or commercial transaction in favor of such activity or involved individuals, or obtain, directly or through an intermediary, funds for its use, advocacy and promotion of its principles, to secure training places, shelter and provide involved individuals with any kind of weapons or counterfeited documents, or to provide any other means of support and financing intentionally. Furthermore, any act that constitutes a crime subject to the International Convention for the Suppression of the Financing of Terrorism.

KSA is committed to all UN Security Council resolutions on CTF and has criminalized financing of terrorism, terrorist acts and terrorist organizations.

SAMA requires all financial institutions operating in KSA to fully comply with UN resolutions and recommendations of the Financial Action Task Force (FATF). If a bank or finance company has any reason to believe that an individual, business or organization is providing or raising funds by any direct or indirect means and knows that such funds will be used for illegal purposes, they shall refrain from entering into dealings with them and shall inform the competent authorities.

A. Stages of Terrorist Financing:

Typically, TF operations go through three stages, as follows:

- Collection of funds:

Collect funds to support and finance terrorist operations or persons to carry out terrorist acts. At this stage, charities and non-profit organizations may be abused by terrorists to collect and launder funds destined for terrorism, (given that Charities enjoy public confidence and have access to large sources of funds and are often located near conflict areas that may be prone to terrorist activity), while bearing in mind that origin of charities existence in these areas is to provide humanitarian assistance and help the affected persons.

- Transfer of funds:

Transfer of funds to terrorists within or outside the fund collection area. At this stage, banks, exchange center, or the alternative transfer method may be used to move funds across borders.... etc.

- Use of funds:

Place funds at the terrorists' disposal to cover operational expenses, subsistence, personal and medical expenses, purchase of travel tickets, purchase of weapons and ammunition, combat training, etc...

B. Risks of Terrorist Financing Crimes:

- It contradicts with the principles of religion, customs, and the values of truth and goodness.
- Security destabilization that may lead to mass destruction.
- Displacement and political asylum, economic sabotage and impeding economic growth.
- Inciting strifes between sects (religious, tribal, partisan, etc.)
- Prevalence of murders and violence: Injustice and oppression lead to injustice and violence as a reaction.

3.1.3 Methods of Combating Money Laundering and Terrorist Financing

A. Anti-Money Laundering:

• Article (25) of the Anti-Money Laundering Law stipulates that:

If the supervisory authority finds that FIs, DNFBPs, and NPOs or any of their directors, board members, executive or supervisory management members failed to comply with any provision of this Law, its Implementing Regulation or relevant decisions or circulars, or any violation referred from other competent authority, the supervisory authority may impose one or more of the following measures:

1. Issue a written warning;
2. Issue an order to comply with a specific instruction;
3. Issue an order to provide regular reports on the measures taken to address the identified violation;
4. Impose a monetary fine of up to SAR 5.000.000 per violation;
5. Ban individuals from employment within the sectors for which the supervisory authority has competences for a period to be determined by the supervisory authority;
6. Restrict the powers of directors, board members, executive or supervisory management members, and controlling owners, including appointing one or more temporary controllers;
7. Dismiss or replace the directors, members of the Board of Directors or of executive or supervisory management;
8. Suspend, restrict or prohibit the continuation of the activity, business or profession or of certain business activities or products;
9. Suspend, restrict or revoke the license; the supervisory authority should inform the General Director of Financial Intelligence about the actions taken or imposed sanction.

• Article (26) of the Law states that "Whoever committing a crime of money laundering shall be subject to imprisonment for a period up to ten years and no less than two years, as well as a fine not exceeding five million riyals or both".

• Article (31) of the Law states that "...any legal person that commits a money laundering offense shall be punished by a fine of no more than 50 million riyals and no less than the equivalent of the double of full value of the funds that were the objects of the offense... A legal person may also be prohibited permanently or temporarily from engaging in certain licensed activities... or an order be made to liquidate the business."

B. Terrorist Financing Processes

In accordance with the Law of Combating Crimes of Terrorism and its Financing, financial institutions and non-profit organizations shall:

• Identify and understand its terrorist financing risks, assess, document and update them regularly, and provide their assessment of risks to the competent regulatory-authorities upon request. Taking into account a wide range of risk factors including those associated with their customers, countries or geographical regions, products, services, transactions or delivery channels. In accordance with this Article, the risk assessment study shall include an assessment of risks associated with new products, business practices and technologies prior to their use.

• Apply due diligence measures, and define their scope based on the level of terrorist financing risks associated with customers and business relationships, and they shall also have in place strict customer due diligence measures in cases of high terrorist financing risks. Particularly, they are required to:

- Maintain all records, documents, papers and data, including customer due diligence measures documents for all financial, commercial and monetary transactions, whether local or foreign, for a period of no less than ten years from the end of the transaction or closing of the account.
- The Public Prosecution may, where it deems necessary, require financial institutions to extend the period of retention of records, documents, papers and data to the extent necessary for the purposes of criminal investigation or prosecution.
- The records and documents maintained shall be sufficient to allow analyzing data and tracking financial transactions, and shall be kept and made available to the competent authorities upon request.

• Apply enhanced due diligence to business relationships and transactions with any person who comes from or resides in a country that has been identified as a high-risk country by the financial institution or by the Permanent Committee for Combating Terrorism and its Financing. Financial institutions shall follow measures that mitigate high risks identified by regulatory authorities.

• Develop and effectively implement policies, procedures and controls to combat the terrorist financing in order to manage and reduce any identified risks.

3.2 AML/CFT rules:

Learning Objective

To be familiar with rules of Combating Money Laundering and Terrorist Financing

To be familiar with KSA's AML/CTF Initiatives

3.2.1 AML/CTF Rules:

In accordance with the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) Guide issued by AML/CTF Department in the Saudi Central Bank dated RABI' I 1441H (November 2019), the rules on AML/CTF can be listed as follows:

1. ML/TF Risk Assessment:

The main step for a financial institution to adopt a risk-based approach is to assess, understand and document its ML/TF risks and to identify the weaknesses that could be used to carry out ML/TF transactions. The risk assessment shall be comprehensive and include an analysis of the risks arising from:

- Customers and beneficial owners.
- The nature of products, services and transactions offered.
- Countries or geographical regions in Saudi Arabia.
- The channels used for providing services and products.
- Other risk factors.

The principles of this Guide do not aim to encourage financial institutions to reduce risks by excluding certain services or a certain class of customers due to the high risks associated with them as financial institutions are not prohibited from dealing with high-risk customers and business relationships. Rather, a financial institution shall develop and implement preventive risk mitigation measures commensurate with the results of the risk assessment it conducted. Responsibilities of financial institutions to assess ML/TF risks are mentioned in Article (5) of the Anti-Money Laundering Law, Article (63) of the Law on Combating Terrorism Crimes and Financing, and Article (16) of its Implementing Regulations.

2.Internal Policies, Procedures and Controls to Mitigate Risks:

The development and implementation of a program for AML/CTF will be an effective and essential tool for applying the risk-based approach, provided that such a program should include controls, policies and procedures approved by the financial institution to mitigate ML/TF risks. The financial institution will have the discretion to determine the appropriate level of AML/CTF policies, procedures and controls, which shall be established based on the risk assessment results. Article (14) of the Anti-Money Laundering Law and its Implementing Regulations and Article (18) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing include the provisions and obligations that the financial institution shall include in its internal policies and procedures.

The financial institution shall include ,as a minimum, the following elements in its internal policy and procedures for combating ML/TF:

- Record keeping.
- Monitoring and following up transactions and activities.
- Reporting of suspicious transactions.
- Arrangements of AML/CTF compliance function.
- Independent audit function.
- AML/CTF training.
- Recruitment and follow-up criteria.

3. Due diligence Measures:

The volume of business that a financial institution is willing to accept should be matched with preventive measures that mitigate the risks associated with it. The financial institution is expected to develop a clear policy on customer and business acceptance and ensure that it has a sufficient level of internal controls to manage and mitigate ML/TF risks. Such preventive measures include the application of due diligence measures to identify and verify a customer, a person acting on his behalf, or a beneficial owner.

Article (7) of the Anti-Money Laundering Law and its Implementing Regulations and Article (17) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing include the obligations of the financial institution upon application of due diligence measures.

4. Enhanced Due Diligence Measures:

Article (7/14) of the Implementing Regulations of the Anti-Money Laundering Law and Article (17) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing state that it is the responsibility of the financial institution to implement enhanced due diligence measures in the case of ML/TF high risks based on the type and level of risk posed by a specific customer or business relationship. Article (11) of the Anti-money Laundering Law and Article (66) of the Low on Combating Terrorism Crimes and Financing require the financial institution to apply enhanced due diligence measures commensurate with the risks involving business relationships and transactions with a person from a country identified as a high-risk country by the financial institution, the PCCML, or the PCCT.

5. Simplified Due Diligence Measures:

The financial institution's adoption of the risk-based approach can result in identifying and classifying customers and business relationships of low risk from the AML/CTF perspective. Thus, it is possible for the financial institution to implement simplified measures in cases where the ML/TF risk assessment results indicate low risk. In order for the financial institution to reach such result, sufficient information about the customer must be collected to determine the related level of risk.

Article (5/5) of the Implementing Regulations of the Anti-Money Laundering Law and Article (17) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing state that the financial institution may apply simplified measures when the ML/TF risks are low subject to the necessary conditions.

6. Record Keeping:

The financial institution shall make its records available to the competent authorities and to its relevant departments in order to allow analysis of data, tracking and structuring of financial transactions, tracing of the origin and executor of transactions as well as those authorized to sign or carry out transactions. Article (12) of the Anti-Money Laundering Law and Article (65) of the Law on Combating Terrorism Crimes and Financing state the financial institution's obligations relating to the manner of record keeping, the minimum record-keeping period, and the possibility for extending that period according to the regulatory requirements.

7. Monitoring of Transactions and Activities:

The monitoring of transactions and activities, including those unusual and suspicious, is an important element for applying the risk-based approach as it enables the financial institution to identify and report any suspicious transactions or activities to the SAFIU. In addition, monitoring systems in the financial institution allow continuous assessment of preventive measures and controls as well as enhancement of their efficiency by making use of any unusual activities detected that led to suspicion of ML/TF.

Article (13) of the Anti-Money Laundering Law and Article (69) of the Law on Combating Terrorism Crimes and Financing state the financial institution's responsibilities to continuously monitor transactions, documents and data to ensure that they are consistent with the information the financial institution has about the customer or business relationship. These responsibilities also include giving particular attention to unusual transactions and activities, especially when they involve high ML/TF risks.

8. Reporting of Suspicious Transactions:

The financial institution shall set up and effectively implement internal procedures for reporting unusual transactions or activities to protect itself from being exploited as a channel to carry out ML/TF transactions. The financial institution shall have a database that helps employees determine if unusual transactions or activities provide reasonable grounds to suspect ML/TF. Articles (15) and (16) of the Anti-Money Laundering Law and Articles (70) and (71) of the Law on Combating Terrorism Crimes and Financing set forth the financial institution's obligations to report suspicious transactions in addition to the regulatory requirements related to non-alerting customers.

9. Arrangements of AML/CTF Compliance Function:

In order for the financial institution to implement the risk-based approach effectively and adequately, its board shall provide sufficient resources, including human and technological resources that are commensurate with the nature and volume of the financial institution's business and the risk assessment results to combat ML/TF so as to ensure the effective implementation of AML/CTF internal policies, procedures and controls. This shall include setting up appropriate arrangements at the level of the financial institution and appointing an officer for the AML/CTF compliance function with specified work duties. The AML/CTF compliance function shall be an administrative and technical reference for the board and a sub-reference for the senior management.

Article (14/1) of the Implementing Regulations of the Anti-Money Laundering Law and Article (18) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing set forth the obligations of the financial institution, which include setting up appropriate AML/CTF arrangements.

10. Independent Audit Function:

In order for the financial institution to ensure the adequacy and appropriateness of the risk-based approach, the financial institution shall have the AML/CTF internal controls tested by an independent party to ensure that they are adequate to ML/TF risks and implemented effectively. However, the internal or external auditors involved shall have sufficient experience to conduct a risk-based test of the effectiveness of implementing the AML/CTF policies and procedures approved by the financial institution. Article (14/1) of the Implementing Regulations of the Anti-Money Laundering Law and Article (18) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing state the obligations of the financial institution that include setting up an independent audit mechanism to test the effectiveness and adequacy of the AML/CTF policies, procedures and controls.

11. AML/CTF Training:

The financial institution should allocate sufficient budget for training the senior management and employees to achieve the required efficiency in combating ML/TF. The training needs to be inspired by real experiences and should include the updates and new methods used in ML/TF transactions and the internal controls of the financial institution. The responsibility for determining the appropriate level and type of training rests with the financial institution as it has to ensure the ability of its employees to apply the risk-based approach. Article (14/1) of the Implementing Regulations of the Anti-Money Laundering Law and Article (18) of the Implementing Regulations of the Law on Combating Terrorism Crimes and Financing state the obligations of the financial institution including providing ongoing employee training programs in the field of AML/CTF.

12. Recruitment and Following-up Criteria:

The financial institution shall implement effective internal control systems that ensure the integrity of employees and reduce the risk of their involvement or collusion with criminals in order to ensure integrity and professional criteria among its employees. Article (14/1) of the Implementing Regulations of the Anti-Money Laundering Law and Article (18) of the Implementing Regulations of the Law on Combating Terrorism Crime and Financing set forth the obligations of the financial institution, which include developing adequate screening procedures to ensure high standards when hiring employees.

13. Correspondence Relationship:

Before entering into a correspondence relationship, the financial institution should collect sufficient information about the correspondent institution to obtain a full understanding of the nature of its work and learn about its reputation, the level of supervision applied to it, and the extent to which it applies the AML/CTF requirements.

Article (9) of the Anti-Money Laundering Law and Article (68) of the Law on Combating Terrorism Crime and Financing set forth the obligations that must be fulfilled by the financial institution before entering into a correspondence relationship.

3.2.2 KSA's AML/CTF Initiatives:

KSA has adopted a variety of initiatives involving legislative and other measures that are responsive to international developments in this concern. The most important among these initiatives may be summed up as follows:

- Issuing the Anti-Money Laundering Law and Implementing Regulations thereof, under Royal Decree #M/39 dated 20/06/1424 AH. Then issuing a new AML Law and Implementing Regulations thereof under Royal Decree #M/31 dated 11/05/1433 AH. Then this law was updated again in 1439 AH.
- Issuing a Combating Terrorism and Financing of Terrorism Law promulgated under Royal Decree #M/16 dated 24/02/1435 AH.
- Establishment of the Financial Intelligence Unit (FIU) In accordance with Article 11 of Saudi AML Law issued under Royal Decree #M/39 dated 20/06/1424 AH, the Financial Intelligence Unit (FIU) began its work on 06/08/1426 AH, with its headquarters in Riyadh. Currently, it is an administrative unit affiliated with the Presidency of State Security and reports to His Excellency the President of State Security. Then, the unit's name was changed to the General Directorate of Financial Intelligence under the Anti-Money Laundering Law of 1439 AH.
- Anti-money laundering units have been established in SAMA, CMA and all local and investment banks, and tasked with ensuring that the financial system is not exploited in money laundering operations, and to inform the competent authorities in case of suspicion.
- Formation of the Anti-Money Laundering Permanent Committee: The committee comprises representatives of a number of government agencies to study all issues related to money laundering in order to overcome them and develop the necessary steps to implement FATF recommendations and follow up the implementation thereof. This committee shall be based at SAMA's headquarters in Riyadh, and shall be chaired by His Excellency the Governor of the Saudi Central Bank (SAMA).
- A mechanism has been developed to implement the international resolutions issued by the Security Council in connection with AML/CTF.
- Circulating UN lists to freeze financial assets, and taking immediate measures to freeze the assets of those who are on the lists, in case that there are any accounts or balances of those persons /organizations.
- Adopting the FATF 40 recommendations related to AML/CTF, provided that the application of these recommendation is in accordance with the regulations in force in the Kingdom.
- Organizing and permanent participation by the Kingdom in international conferences and forums related to AML.

3.3 Relationship of ML/TF crimes with Insurance Companies:

Learning Objective

To be familiar with the relationship of ML/TF crimes with insurance companies.

In its simplest terms, ML is the fact that a money launderer has funds from an illicit source and several operations are conducted thereon in order to make them appears as if they came from a legitimate source. ML is the legalization of illicit funds.

Every money launderer doesn't want his tainted money to be caught, so he turns it into seemingly legitimate assets. These assets include, but not limited to, real estate assets, bank deposits, bonds from insurance policies or bank bonds. Each of these assets has its own method that must be detected by the employees of the entity to be defrauded.

According to Financial Crimes Enforcement Network (FinCEN) of the US Department of Treasury, the key insurance products for money launderers are as follows:

3.3.1 Life insurance:

Life insurance policies with a large insurance amount led to the continuation of ML operations, as these funds can be used by money launderers and can be used as a source of investment for more tainted money - for example, loans can be taken with the guarantee of this monetary value.

3.3.2 Premium products:

Because such products allow the customer to place large amounts of money into the financial system and also transfer the same with the intention of concealing its source of origin"

FATF also confirmed that about 65% of ML operations were conducted through life insurance products. Given that between USD 800 billion and USD 2.4 trillion are laundered annually.

FATF added that the insurance sector is attractive for money launderers for the following reasons:

- Size of insurance industry.
- Ease of access and variety of products.
- The policyholder differs from the beneficiary.

American Council of Life Insurers also stated that (99%) of ML risk is in the life insurance sector. The US Customs Service announced a few years ago that more than USD 80 million of drug trafficking funds were laundered through life insurance policies. Drug traffickers were cashing out their insurance bonds ahead of time, and paying early withdrawal fines. The purchase was made through intermediaries, and the beneficiaries of policies were members of their organizations or family members. Drug purchase funds were paid through transfers or checks issued by the insurance company. In the case of general insurance, they purchased with their tainted money a general insurance policy to insure high-value goods. Goods value were paid by their tainted money and then they made a forged claim against the policy issued by the insurance company. Thus, ML process is conducted more than once. Purchase of goods, purchase of an insurance policy, and finally, the drug dealer receives clean money from the insurance company when submitting the counterfeit claim in exchange for the policy. In 1990, a British insurance agent was convicted of ML worth of USD 1.5 million.

3.4 General Provisions of AML/CTF Requirements in Insurance Companies:

Learning Objective

To be familiar with general provisions of AML/CTF Requirements in insurance companies

To be familiar with KSA's AML/CTF efforts in insurance companies

3.4.1 General Provisions of AML/CTF Requirements in Insurance Companies:

- Insurance companies must implement the rules related to FATF recommendations, including detailed obligations and procedures to prevent money laundering and terrorist financing. The insurance company shall take into account the nature of its activity, its organizational structure and the type of its customers and operations when enacting policies and procedures for AML/CTF. It must ensure that the actions it takes are sufficient and appropriate to the general requirements and objectives set forth in the rules and regulations.

- Insurance companies shall:
    - Develop written policies and procedures aimed at combating money-laundering and terrorist financing, as stipulated in Article 15 of the implementing regulations of the Cooperative Insurance Companies Control Law. Ensure full compliance with all regulatory and procedural requirements, including record-keeping and cooperation with

FIU of the Ministry of the Interior and entities responsible for implementation of AML/CTF Law and related regulations, including timely disclosure of information.

• Ensure that all insurance company officials and employees fully understand and are familiar with the content of ML/TF Regulations, and take all precautions towards AML/CTF.

• Regularly review policies and procedures of AML/CTF to ensure their effectiveness.

• Develop and implement customer acceptance and handling policies and procedures, taking into account ML/TF risks.

• Insurers should realize that the insurance industry is vulnerable to money laundering and terrorism financing. Including, but not limited to, the following:

  - Lump sum added to life insurance contract.
  - Lump sum added to personal insurance contracts.

3.4.2 KSA's AML/CTF efforts in insurance companies

- SAMA approved the rules, which include instructions necessary to apply regulatory and supervisory requirements to the insurance sector in KSA. These rules aim to ensure that insurance and re-insurance companies and insurance service providers adhere to the controls, regulations and principles issued in the field of AML/CTF, protect and promote confidence in the insurance sector, its integrity and credibility, in addition to protecting the insured.
- SAMA has required insurance companies to establish policies and procedures explain the mechanism of communication with SAMA, provided that it shall include, at a minimum, contact information of the employee responsible for AML/CTF, and the communication procedures followed in cases of handling requests submitted by SAMA, as well as the methods of reporting thereon. In addition to establishing an internal inspection team for each insurance company in KSA and cooperating with SAFIU to combat money-laundering and terrorist financing in order to identify the suspected and ensure that the whistleblowers receive legal protection when needed, verify insurance customers in the event of a large increase in the insured amount or insurance premiums, request the pre-collection of benefits, cancel the insurance policy early or change its term, or change the beneficiary and pay unjustified lump sum for life insurance policies.
- SAMA emphasized that the company board shall be responsible for supervising the design, approval and supervision of AML/CTF program. The company must establish appropriate internal control procedures. The internal inspection team shall be responsible for identifying, preventing, combating and preventing ML/TF. Moreover, it shall be also responsible for receiving and following up reports of any suspicious activities related to ML/TF submitted by the company's employees, agents or intermediaries.

- Annex No. 1 of the Anti-Money Laundering and Counter-Terrorist Financing Rules General Rules contains key typical indicators, indicating unusual or suspicious operations, as follows:

Annex (1) : Typical ML/TF Indicators in Insurance Sector	
General Indications	
Information	• The insured delayed or hesitated to provide information for customer verification purposes.
Jurisdiction	• The insured has been identified by an agent/broker operating in an unregulated or under-regulated market.
Payment	• The insured pays premiums unexpectedly in advance.
	• The insured transfers large sums via several accounts of non-residents.
	• The insured asks to procure a large part of a lump-sum contract while such insured usually makes small and regular payments.
Beneficiary	• The insured transfers the benefit of a product to a third party that has no apparent connection therewith.
	• The insured replaces the first insured beneficiary with a third party that has no apparent connection therewith.
	• The insured changes the specified beneficiaries without the insurer's knowledge or consent.
	• The insured changes the beneficiaries by just signing an annex to the policy.
	• The insured calls off a product at an early stage in case of loss and directs the recovery check to a third party.

Pre-Sale Indicators	
Behavior	• The applicant does not care about the policy, but focuses on early termination of the policy.
	• The applicant hesitates to provide basic information when submitting policy application.
	• The applicant gives limited or fictitious information.
	• The applicant gives information difficult or costly for insurance company to verify.
	• The applicant uses a postal address outside the range of insurance supervisors.
Payment / Cash Value	• The applicant prefers cash to complete transactions instead of other payment methods.
	•The applicant tries to use a check for a third party in order to purchase a policy.
	• The applicant requests the payment of a lump sum (Instead of premiums) by wire transfer or in a foreign currency.
	• The applicant purchases policies for amounts seem over his apparent capacity.
	• The applicant borrows the maximum cash value of the policy value paid in one premium shortly after paying the policy value.
	• The applicant owns policies with several insurance companies.
	•The applicant cancels a high-value insurance policy after a short time and demands a refund of cash value payable to the third party.

Pre-Sale Indicators	
Behavior	• The client hesitates to reveal the purpose of his investments.
	• The client accepts conditions that do not match his health or age.
	• The client submits an application to carry out activities outside his actual business.
Products / Documentation	• The client requests an insurance product with no clear objective.
	• The client applies for policy in a place far from his geographical location where similar policies are available.
	• The premiums exceed the apparent capabilities of the client.
	• The amounts of insurance policies are not consistent with the client's insurance needs.
Transactions	• The client conducts a transaction that leads to a clear increase in investment contributions.
	• The client conducts a transaction involving unannounced parties.
	• The client pays the first premium from an offshore bank account.

3.5 Fraud and its Types in Insurance Companies.

Learning Objective

To be familiar with the concept and types of fraud in insurance companies.

3.5.1 Concept of Fraud:

The insurance industry aims to protect individuals and institutions from the risks they are exposed to. However, the industry was not far from the criminal acts by insurance fraudsters, which made insurance companies the victims of such acts. The frauds on insurance companies have multiple and varied forms, in terms of the fraud source or method used to carry out the crime of fraud. Fraud also has bad consequences for all concerned parties (the insurance company - individuals - institutions - the State - ...etc.). In KSA, the crime of defrauding insurance companies has become a phenomenon despite the regulatory modernity of the Saudi insurance market. The Insurance Industry Regulation Law was issued in 2004. Perhaps the most affected branch of insurance, are the Vehicle Insurance Branch and the Health Insurance, as they are considered among the most important branches of insurance of Saudi cooperative insurance companies, especially after the issuance of the Law of Cooperative Health Insurance by virtue of Royal Decree No. M/10 dated 01/05/1420 AH, based on Council of Ministers Resolution No. 71 dated 27/04/120 AH, which aims at providing health care and supervising and regulating the health insurance sector for all Saudi residents.

3.5.2 Definition of Fraudulent acts against insurance companies

In accordance with the Anti-Fraud Regulation issued by SAMA:

Insurance fraud is defined as any act or negligence intended to obtain dirty money or achieve illegal gain for the party who committed the fraud or for third parties. This can be achieved by, but not limited to, the following means:

- Misuse of Assets
- Deliberately present, conceal, withhold, or not disclose one or all of the material facts relating to a financial decision, process or perception of the insurance company's status.
- Abuse of power, a position of trust or fiduciary relationship

3.5.3 Types of Fraud:

A. **Internal Fraud:** A fraud committed by employees of the insurance company.

B. **Fraud Practiced by Insurance/Reinsurance Services Providers:** It is a fraud committed by insurance agents and brokers against insurance companies or insured.

C. **Fraud Practiced by Policyholders:** Fraud committed in the purchase or execution of an insurance product for unlawful coverage or payment.

3.6 Standards that insurance companies must comply with to detect and reduce fraud:

Learning Objective

To be familiar with general principles and minimum standards that insurance companies must comply with to detect and reduce fraud.

4.6.1 Standards that insurance companies must comply with to detect and reduce fraud:

The insurance activity is based on a set of basic principles, the most prominent of which is the principle of utmost good faith from all the insurance process parties. However, there are occasionally some violations from a party to the detriment of the other. The most prominent of these violations are fraud or misuse.

In order to counter this negative phenomenon that affects the insurance process in general, SAMA issued the Anti-Fraud Regulations, which set the standards for combating fraud:

A. Anti-Internal Fraud Standards

- Detection

Internal fraud can be committed by the company board members, management, and staff in any of the business activities of the company.

- Measure

Companies should define clear and well documented policies and procedures to measure internal fraud.

- Monitoring:

- Companies should enforce thorough management and staff supervision policies, particularly for key positions within the organization.
- Sensitive activities should be subject to the dual verification principle.

B. Criteria of Fraud Practiced by Insurance/Reinsurance Services Providers

- Detection

Typical Indicators of Fraud Practiced by Insurance/Reinsurance Services Providers include:

- Withholding premiums collected by policyholders until a claim is reported.
- Ensuring fictional policyholders while paying a first premium, collecting the commission and ceasing the insurance.
- Conspiring with policyholders to commit fraud.

- Measurement

Insurance company shall assess the risk level, trend, and occurrence of fraud (if any).

- Monitoring

Insurers should define appropriate indicators to flag insurance service providers with higher risk of fraud

C. Criteria of Fraud Practiced by Policyholders

- Detection

The insured may commit fraud throughout the different stages of the insurance contract, as follows:

- At the policy setup stage: withholding or providing incorrect personal or background information.
- At the claims filing stage:
  - Submitting fictitious claims.
  - Misrepresenting facts to include the claim in the coverage.
  - Overstating cost of damage.

- Measurement

Companies should maintain detailed records of occurrence of policyholder fraud. These records should detail:

- The type of fraud.
- The technique and/or technology used to commit the fraud.
- The weaknesses in internal control procedures and deficiencies in processes.
- The fraudsters' profiles and backgrounds.
- The amount of the fraud.

- Monitoring

Companies must establish, for each business class and product, appropriate policyholder fraud indicators, trigger levels, and responses.

3.7 Anti-fraud methods appropriate to the source of fraud risk to which the insurance company is exposed:

Learning Objective

To be familiar with the most important methods of combating and reducing fraud, commensurate with the source of fraud risk to which the insurance company is exposed.

Anti-Fraud Regulations referred to the most important methods that insurance companies can adopt to confront and reduce the risk of fraud in proportion to the source of fraud risk to which the insurance company is exposed, as follows:

3.7.1 Internal Fraud Prevention:

- Companies should define transparent and comprehensive policies when dealing with internal fraud.
- Companies should restrict the access to cash and electronic transfers.
- Companies should enforce strict information technology rules.
- Companies should, prior to hiring permanent or temporary personnel, thoroughly screen and perform background checks.
- Companies should promote a culture of integrity and accountability.

3.7.2 Mitigation of Provider Service Fraud:

- Avoid paying a commission before the first premium is collected.
- Keep parts of the commission in a temporary deposit account when dealing with unknown or new insurance service providers.
- Send policies and renewal documents directly to policyholders.
- Request from insurance service providers not to accept cash payments of premiums.

3.7.3 Mitigation of Policyholders Fraud:

- Companies should design their policies to minimize the occurrence of fraud.
- Companies should clearly define and document client filtering policies and set the conditions required to accept new clients.
- Companies should define clear and comprehensive claims assessment procedures.
- Companies should inform policyholders about their anti-fraud policies and the consequences of providing false or inaccurate information.

3.8 Policies and procedures necessary to implement the anti-fraud and risk management strategy:.

Learning Objective

To be familiar with the policies, procedures and methods necessary to implement the anti-fraud and risk management strategy.

Anti-Fraud Regulations issued by SAMA clarified a set of model indicators that were recorded in three tables attached to the regulations, to support insurance companies in discovering the risk of fraud to which the insurance company is exposed, namely:

- **Table 1:** Typical Indicators of Internal Fraud
- **Table 2:** Typical Indicators of Fraud Practiced by Insurance/Reinsurance Services Providers
- **Table 3:** Typical Indicators of Fraud Practiced by Policyholders

For example, the following is the Typical Insurance Service Provider Fraud Indicators:

Typical Indicators of Fraud Practiced by Policyholders General Indicators
First: Claimant's Behavior
Claimant does nothing to avoid or limit damage
Claimant dodges to avoid answering and does not cooperate when reenacting an incident
The claimant makes inconsistent statements either to the police and experts.
Claimant keeps claim details away from others (e.g., family, friends, Neighbors, etc.)
Claimant takes up work in person or over phone, and avoids written communication
Claimant demonstrates in-depth knowledge of insurance terms and claims procedures
Claimant verifies policy coverage shortly before the claimed incident
Claimant changes his/her address, bank details and phone number shortly before submitting the claim
Claimant insists on using the services of certain contractors, engineers, or physicians without a valid reason
Claimant avoids giving information about previous insurance refusal when applying for new insurance

Second: Coverage:
Claimant owns several insurance policies for the same purpose with same coverage
Claimant often changes insurance companies
Claimant insists on conditions amendment
Claimant raises claim in an impressive manner (including but not limited to seeking advice of her/his attorney or other professional advice in filing a claim)
Third: Payment
The claimant requests the payment in cash.
Claimant requests payment to be placed in different accounts
Claimant requests payment to be made to a third party
Claimant insists that payment exceeds the value of damaged items
Fourth: Quick Settlement
Claimant insists on a quick settlement
Claimant threatens to hire a lawyer if the settlement is not done quickly
Claimant is constantly inquiring about the progress of settlement
Claimant accepts a low settlement to receive a quick settlement.
Fifth: Background Information
Claimant provides vague information regarding identity of policyholder and/ or beneficiary
Claimant uses a post office box or hotel as an address, moves repeatedly, gives false addresses, or has a non-matching telephone number and address
Claimant refuses the disclosure of claims history with other insurers
Sixth: Personal and Financial Situation
Claimant has an usual and/ or difficult occupational situation (e.g., unemployed, self-employed, frustrated with job, facing disciplinary action, seasonal worker, or in an industry experiencing downsizing and lay-offs)
Claimant is experiencing a bad financial situation
Claimant faces a difficult family situation (e.g., divorce)
Claimant has a relationship with known fraudsters or criminals
Claimant has a history in bad claims
Insurer is experiencing difficulties reaching the claimant
Claimant lives in a known fraud area

Seventh: Forms
Application forms are incomplete and/ or unsigned
Claim forms are incomplete and/ or unsigned
Claim forms are modified frequently
Application form and the inception date of the cover are different
Application form and claim form are inconsistent
Eighth: Receipts and Reports
Minor losses are sufficiently documented while major ones are not
Documents/ receipts are unspecific, modified, or unreadable
Original documents/ receipts are missing; only copies are provided
Receipts are new (e.g., not wrinkled, clean) for old events or products
Receipts contain different handwritings
Documents display odd dates (e.g., during holidays, after business hours etc.)
Doubtful receipts are provided, from companies that do not exist, have ceased operations, or are insolvent
Doubtful receipts are provided, with differing dates but with successive numbering
Foreign receipts contain unspecified currency
Reports from medical practitioners or other authorities (e.g., police) are inconsistent
Ninth: Submission of Claim
Claims are submitted by a third party without proper power of attorney
High claims are submitted frequently
Claims submitted display prevailing connections
Tenth: Timing of Claim Claim is filed in one of the following cases: Shortly after coverage becomes effective. – Just before cover ceases. – Shortly after the cover has been increased or the contract provisions are changed.
Loss occurs just after payment of premiums that were long overdue
Damage occurs in the period of provisional cover

Eleventh: Size of Claim
Loss is actually far higher than first reported
Loss claimed is just below the threshold that causes additional checks by the insurer
Amounts insured and the characteristics (e.g., age, profession) or life style of the policyholder is inconsistent
Typical Medical Insurance Fraud Indicators
First: Conduct of Claimant
Physicians are changed frequently
Claimant has multiple disability policies
Claimant claims a disability and is involved in active employment or in a physical sport or hobby
Claimant develops additional injuries allegedly related to the initial injury or illness when it appears that the claim will be terminated
Claimant's illness or injury occurs shortly before an employment problem (e.g., disciplinary action, demotion, layoff, strike, termination, or downsizing)
Claimant visiting more than two medical providers for the same case
Second: Conduct of Physicians
Emergency services are not contacted
Prescriptions are cut or altered
Documents contain misspelling or misusing of medical terminology
Improper identification numbers are used
Attending physician is not in the same geographic region as the claimant
Incorrect or conflicting diagnosis from different medical providers are given
Treatment provided to the claimant is inconsistent with the report diagnosis
Treatment is scheduled on holidays or other days when medical facilities are normally closed
Attending physician's specialty is not consistent with the diagnosis

3.9 Anti-fraud roles and responsibilities in insurance companies:

Learning Objective

To be familiar with the anti-fraud roles and responsibilities in insurance companies

3.9.1 Board of Insurance company:

The Board of Directors is responsible for combating fraud. In this respect, it shall be responsible for the following, at a minimum:

- Adopting anti-fraud strategy and policies.
- Ensuring that the necessary resources are made available for implementation of such strategy / policies.

3.9.2 Insurance company employees:

The insurance company's employees, whether employees or contractors, shall be responsible for monitoring fraud in their work place and immediately report any suspected fraud.

3.9.3 Internal Audit Department:

The Internal Audit Department shall be responsible for the following:

- Investigation of fraud cases and collection of evidence necessary in the event of suspicion and verification of suspected frauds.
- Conduct regular assessments to verify the effectiveness of anti-fraud policies and procedures and ensure proper application thereof and that the suspected frauds are dealt with in a timely and appropriate manner, as well as to ensure that the actions taken are properly documented and the relevant information is included in the audit department's report required under the Implementing Regulations of the Finance Companies Control Law.

3.9.4 External Auditor:

Among the external auditor's duties is to check the company's compliance with anti-fraud policies.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. What are the objectives of money laundering?
Answer Reference: Section 3.1.1 (b)

2. Specify in brief money laundering operations?
Answer Reference: Section3.1.1 (C)

3. What are the most important social risks of money laundering?
Answer Reference: Section 3.1.1 (D)

4. Explain in brief the stages of terrorist financing?
Answer Reference: Section 3.1.2(a)

5. There are many methods to combat money laundering and the terrorist financing, mention them in brief?
Answer Reference: Section 3.1.3

6. Mention AML/CFT rules.
Answer Reference: Section 3.2.1

7. What are the key KSA's AML/CTF Initiatives?
Answer Reference: Section 3.2.2

8. What are the most important types of insurance used in money laundering and terrorist financing?
Answer Reference: Section 3.3.1 & 3.3.2

9. What are the most important typical indicators for money-laundering and terrorist financing in the insurance industry?
Answer Reference: Section 3.4.2

10. Define fraud against Insurance companies?
Answer Reference: Section 3.5.2

Revision questions:

Answer the following questions and check your answer in the corresponding section:

11. Specify types of fraud against insurance companies?
Answer Reference: Section 3.5.3

12. There are several standards that insurance companies must comply with to detect and reduce fraud, mention them?
Answer Reference: Section 4.6.1

13. What is the most important methods to reduce internal fraud in insurance company?
Answer Reference: Section 3.7.1

14. What are the most important general typical indicators for combating fraud in the insurance company?
Answer Reference: Section 3.8

15. What are the most important typical indicators for combating fraud in medical insurance company?
Answer Reference: Section 3.8

16. Specify the role of the insurance company's board toward fraud control?
Answer Reference: Section 3.9.1

Chapter Four

Rules and Procedures for Insurance Brokerage and Agency

This part of book accounts for approximately 15 out of the 100 questions of the test.

4 - Introduction:

This chapter deals with the most important rules governing insurance brokerage activities, the functions and obligations of insurance broker, the functions and obligations of insurance agent, and Insurance Aggregation and its obligations, in accordance with the Insurance Intermediaries Regulations issued by SAMA.

4.1 Be familiar with the most important rules governing insurance brokerage activities:

Learning Objective

To be able to distinguish between the insurance agent, insurance broker, and reinsurance broker
To be familiar with the most important rules governing insurance brokerage.

Before we address the role of insurance brokerage in the insurance market, it is worth knowing the types of insurance brokerage, and the definition of each type and its legal relationship, whether with insurance companies or the public of insured (insured or customers). These types, definition or legal relationship may differ from one country to another according to the insurance legislations and the jurisdiction of each country. In this regard, we will refer to the current division applicable in KSA, in accordance with the Cooperative Insurance Control Law and its implementing regulations, as well as the Insurance Intermediaries Regulations issued by SAMA.

4.1.1 Definition of Insurance Agent and Broker

A. Insurance agent

An Insurance agent is defined as a juristic entity that for compensation represents the insurance company to solicit, procure and negotiate insurance policies, and all works it usually carries out for or on behalf of the insurance company.

It is a production agent, appointed by the insurance company, and can deal with several insurance companies after obtaining SAMA's approval, under an insurance agency contract. It has the authority to issue and subscribe insurance policies and settle claims on behalf of the company within specified limits and powers. The principal agent has a private office and insurance staff working therewith. It also has a bank account and is responsible towards the insurance company for the collection of insurance premiums.

B. Insurance broker

An Insurance broker is defined as a juristic entity that for compensation negotiates with the insurance company in order to conduct insurance services for policyholders.

The insurance broker deals with more than one insurance company, to represent the insured, and is selected under an insurance brokerage contract, and has special offices and highly qualified and experienced insurance staff. The professional insurance broker usually provides good quality information for underwriting to the insurance company through a form called the "insurance voucher", and negotiates with the company and provides assistance to its clients.

The insurance company usually issues insurance policies, but the insurance premiums are deducted from the broker's account, who is therefore responsible for paying the premiums. In addition to producing direct insurance, the broker arranges for reinsurance operations in both the local and global insurance market.

C. Reinsurance broker

A Reinsurance broker is defined as a juristic entity that negotiates contracts of reinsurance between an insurance company and a reinsurance company on behalf of the insurance company, receiving commission for placement and other services rendered from the reinsurance company.

Role of insurance brokerage in the insurance industry:

The insurance broker has a credit duty to work and obtain the best interest of the insured or his client, and to provide the correct practical advice, which is independent of any influence of the insurance company in terms of professional consulting. The insurance broker is considered as an accountant, lawyer, physician or engineer who provides the neutral professional consultation, based on years of experience, education and continuous training.

When the insured orders or arranges for insurance, it is easy for them to choose shortcuts to look for the cheapest prices, without looking at the policies wording, financial stability of the insurance companies, or their experience in paying compensation or claims. The wider insurance coverage policy format often costs only small additional amounts compared to traditional policies.

Here comes the role of the professional insurance broker, who deals with several insurance companies and has knowledge of various types of insurance policy formulations, as he acts in the service of his clients and helps them to decide on the insurance of insured risk, on the best types of insurance coverage, or to what extent should the insurance premium cost be.

The broker may advise whether there are other methods or means such as retention or transfer of risk such as self-insurance and other non-traditional insurance products. In many cases, the broker role is the most important, as in the case of claims.

The role of insurance brokerage in the development and prosperity of the insurance industry can be summarized as follows:

- An insurance broker or agent requires a combination of technical knowledge, business knowledge, and the skill of communicating with others.
- Broker/agent acts as the link between customers and insurance companies.
- Providing sound advice and recommendations to clients is an important factor in developing the insurance market to be more competitive.
- Such advice and recommendations may include: Analyze insurance companies most suitable for the customer, study and analyze different types of insurance coverage in the market, and most importantly, obtain an appropriate and fair insurance price for the particular product.
- Assist in the economy growth in general (increase of the national GDP), and the growth of insurance services sector in particular, through advice and recommendations provided by insurance brokers to clients, which is an important role in strengthening the insurance market to become more competitive in the insurance industry.

D. In some cases, the broker surveys and reviews the property to be insured for customers under different insurance products, negotiates the prices of those products, and reports to the insurance companies.

4.2 Key Rules Governing Insurance Brokerage:

Intermediaries shall comply with the rules of professional conduct by fulfilling the following requirements:

- Act in an honest, transparent and fair manner, and fulfill all of their obligations towards Clients and insurance and reinsurance companies, as stipulated by Saudi Arabian laws and regulations.

- Act within reasonable competence when dealing with Clients and insurance and re-insurance companies. For this purpose, competence shall be acquired through training, experience, and consulting with experts when needed.
- Keep the employees' skills and knowledge about the insurance business up-to-date and be informed of the products and services available on the market.
- Take reasonable care in maintaining adequate managerial, financial, operational, and human resources to carry out their business and serve Clients.
- Communicate all relevant information including coverage details, conditions, exceptions and restrictions of the insurance policy to Clients in a timely manner.
- Take reasonable measures to ensure the accuracy and clarity of the information provided to and from Clients and make such information available in writing.
- Treat all data and information acquired about the insurance company and Clients with utmost confidentiality.
- Must not motivate Clients to revoke a valid insurance policy, and must not motivate Clients to refuse a quotation given by a competitor using false or unfair evaluation in order to merely increase commissions.
- Ensure that Clients fully understand the services provided by the Intermediaries and the nature of the relationship between both parties and the nature of the relationship between both parties.
- Notify the insurance company of any information or documents related to Clients which might affect the decision of the insurance company to provide the coverage and at which rates and conditions.
- Immediately notify Clients about the acceptance or rejection of the coverage by the insurance company.
- Explain to Clients the mechanism of paying the insurance premiums and any other additional proceeds the insurance company is entitled to.

4.3 Be familiar with the obligations of insurance broker :

Learning Objective

To be familiar with the key obligations of the insurance broker

In addition to the general rules, brokers shall comply with the following:
- Take reasonable measures to identify and address conflict of interest to ensure fair treatment to all Clients. Where conflict of interest arises, brokers must not unfairly

place their interests above those of their Clients.

- Present to each client a comparison between the prices and coverage of insurance policies tailored to the client's needs and offered by different insurance companies, then recommend an insurance policy and explain to the client the reason for choosing it and the conditions, benefits, and exclusions it includes.
- Do not favor companies they are associated with.
- Do not choose or recommend insurance coverage from an insurance company based on the commissions granted to the broker.

4.3.1 Obligations of a Broker towards Insurance Company:

Note on all official papers, correspondences and documents their license number.

Provide the insurance company with information that enables it to assess the risk to be insured or renew its insurance with the knowledge and approval of Clients.

Be knowledgeable about insurance markets, insurance law and prevailing regulations, and follow-up on the developments occurring therein.

Provide assistance in negotiations between the insurance company and Clients concerning claims arising from the risk insured.

Obtain written approval from SAMA prior to placing risks with foreign insurance companies to cover risks that cannot be covered through a licensed company in the Kingdom.

4.4 Be familiar with Key Obligations of the Insurance Agent :

Learning Objective

To be familiar with the key obligations of the insurance agent

4.4.1 Obligations of an Agent towards the Represented Insurance Company:

- Note on all official papers, correspondences and documents their license number, as well as the name of the represented insurance company.
- Comply with the insurance policy limits that they are authorized to sell as set in the contract binding the agent to the represented insurance company.
- Should not represent more than one insurance company without obtaining the prior approval of SAMA
- Provide to the insurance company with their compliance and internal control manuals if requested to do so.
- Obtain the approval of SAMA for any changes occurring on the agency agreement

with the represented insurance company.

- Agents must request SAMA's prior approval to terminate the agency agreement with a represented insurance company. To request such approval, agents must provide SAMA with:
- Reasons for terminating the agency agreement with the current insurance company.
- Insurance company that the agent plans to sign an agreement with and a draft of the agency agreement.
- Commissions rates to be received from the insurance company.
- After obtaining SAMA's approval to terminate the agency agreement, the agent shall:
- Sign a financial settlement of accounts with the current insurance company
- Inform the public of ceasing the agreement through announcements in local newspapers.
- Stop selling insurance products for a transitory period of 60 days and take all necessary measures to terminate the association with the insurance company, including: removing the company's signboards from its branches, delivering sales registers, and names of users and passwords of electronic systems related to the company and settle all pending financial matters between both parties.

4.5 Be familiar with functions of insurance intermediaries towards the insured.

Learning Objective

To be familiar with the most important rules governing insurance brokerage and its obligations.

The key functions for both insurance brokers and agents towards the insured persons may be summarized as follows:

4.5.1 pre-sale Contact Client

A. Advertising:

- Intermediaries shall ensure that advertisements are not misleading, over-stated or offensive.
- Ensure that advertisements neither contain anything which is in breach of the law

- Ensure that advertisements do not abuse the trust of Clients or exploit their lack of experience or knowledge.
- Ensure in the case of an insurance broker that advertisements are not restricted to the policies of one insurance company.

B. Advice:

- Intermediaries shall provide advice on the matters within their field of expertise and seek or recommend specialists if necessary.
- Insurance brokers shall provide advice, technical consultation and the most suitable policy conditions and prices.

C. Client Service:

Intermediaries shall:

- Understand the terms and conditions of all policies offered to Clients.
- Understand Clients' profile, coverage needs, and appetite for risk

D. Legal Requirements:

- Intermediaries shall ensure that any documents issued comply with all statutory and regulatory requirements.
- Brokers shall obtain a written approval to represent Clients with the (re)insurance company, and an authorization from the insurance company to be represented with the reinsurance company.

E. Documentation:

Intermediaries shall:

- Ensure that all written terms and conditions are set out, clearly and in plain and understandable language.
- Send policy documentation to Clients without avoidable delay.
- Send a written advice along with the policy documentation stressing on the importance of reading it carefully.
- Ensure that policies contain details of complaints handling procedures.

4.5.2 Sale of Insurance products and services:

A. Sales Practices:

Intermediaries shall:

- Ensure Clients understand the type of service being offered.

- Ensure that the policy proposed is suitable for the Clients' needs.
- Provide Clients with comparisons in terms of price and coverage.
- Notify Clients promptly if unable to obtain the requested insurance.
- State the period for which the quotation remains valid
- Explain to Clients their obligation to notify claims promptly.

B. Information Furnishing:

Intermediaries shall:

- Request Clients to make true disclosure.
- Avoid influencing and pressuring Clients and make it clear that all the answers or statements given are his/ her own responsibility.
- Require Clients to carefully check the information given in the documents.
- Explain to Clients the importance of disclosing all subsequent changes that might affect the coverage.
- Disclose on behalf of Clients all material facts and give a fair presentation of the risk profile of Clients to the insurance company.

C. Contract Explanation:

Intermediaries shall:

- Explain all the essential provisions of the coverage.
- Quote terms exactly as provided by the insurance company.
- Draw attention to any warranty imposed, and exclusions under the policy.
- Provide a list of insurance companies participating in the coverage.

D. Remuneration:

Intermediaries shall:

- Disclose to Clients the amount of proceeds and commissions for the policy being contracted by Clients.
- Inform Clients in writing of any additional fees or charges.
- Insurance brokers are entitled to receive their commission once the contract is entered into.

4.5.3 Post-Sale Client Servicing:

A. Data Confidentiality:

Intermediaries shall:

- Ensure that Clients data and confidential documents are stored safely with restricted access.

- Ensure that Clients data is transferred only to relevant stakeholders

B. Client Notification:

Intermediaries shall:

- Notify Clients, using a written confirmation that the insurance contract has been entered into.
- Notify Clients with the changes made to the terms and conditions of an insurance contract.
- Inform Clients of any termination of coverage.

C. Policy Renewal:

Intermediaries shall:

- Ensure that renewal notices include Clients' duties to disclose changes affecting the policy.
- Ensure that renewal notices contain a requirement for keeping records, for the purpose of renewal of the contract.
- Ensure that Clients are aware of the expiry date of the insurance contract
- Ensure that Clients receive insurance company's renewal invitations well in time before the expiry date.

E. Client Complaints:

Intermediaries shall:

- Accept complaints either by phone or in writing (e.g., letters, e-mails, and fax).
- Explain the procedures to be followed when filing a complaint.
- Provide Clients with the contact reference to follow up on the filed complaint.
- Inform Clients on the progress of the filed complaint.
- Respond to policyholder's complaints within fifteen 15 calendar days from the reception of correspondence.
- Have in place an electronic system for recording and monitoring complaints.

F. Financial Reporting:

Intermediaries shall complete and submit the set of intermediaries' financial reporting forms to SAMA according to the financial reporting forms guidelines.

4.6 Be familiar with Rules Governing Insurance Aggregation Activities and obligations :

Learning Objective

To be familiar with governing rules and obligations of insurance aggregation activities

As part of its efforts to develop the insurance industry and facilitate the process of obtaining insurance coverage for insurance applicants, and within a regulatory and supervisory framework that ensures the protection and efficiency of transactions in the insurance sector and in a manner that contributes to achieving its stability and fairness of transactions, SAMA has issued Rules Governing Insurance Aggregation Activities. SAMA indicated that these rules aim to regulate insurance aggregation activities by setting the minimum requirements and controls necessary for licensing insurance aggregation activities through internet in KSA, in addition to regulating the relationship between the Insurance Aggregator and insurance companies.

It is very important to be cautious when purchasing insurance policies and other products to avoid fraud that may occur through electronic platforms. Therefore, the Rules Governing Insurance Aggregation Activities issued by SAMA required the licensed brokerage companies to put in place specific mechanisms to limit such frauds, including not allowing the duplication of bank account numbers, as well as verifying the insured's personal data from a documented and responsible source, linking the national address directly and not allowing its entry manually.

On the other hand, these rules require the insurance aggregator to clarify and disclose through the electronic platform all the terms and conditions of using the platform, including use instructions, confidentiality, security instructions, as well as adequate explanation of payment methods. It is very important for the aggregator to ensure that the customer understands these data and instructions by putting the appropriate declarations and obligations in place before using the electronic platform. It is also important that the language used is easy and clear to all to avoid misinterpretation. Given that protecting the customer's interest and abiding by the governance of these operations is a priority in this area, the insurance aggregator must submit the list of contracted insurance companies to inform the customer as well as make the customer service available to communicate directly and quickly with the beneficiaries.

The most important rules governing insurance aggregation activities, issued by virtue of SAMA Governor's Decision No. 4/441 dated 25/06/441 AH are as follows:

4.6.1 License Requirements for Insurance Aggregation Activities:

- The applicant for insurance aggregator license shall:
    • be a joint stock or limited liability company licensed to operate in Saudi Arabia;
    • Have a minimum capital of Five hundred thousand Saudi Riyals (500,000) for an Insurance Aggregator only. Three million Saudi Riyals (3,000,000) for an insurance broker conducting Insurance Aggregation Activities.
- The application shall include a specific business plan for Insurance Aggregation Activities. The plan shall, as a minimum, include the following:
    • Insurance lines and products to be displayed on the Electronic Platform, and analysis of the volume of online insurance transactions expected over the next three years;
    • Analysis of the risks related to web transactions and precautionary measures and actions necessary to reduce such risks, including, money laundering crimes, strategic risks and illegal access to the data;
    • Emergency plan that includes actions to be taken if one or more components of the Electronic Platform go down.
- The application submitted to SAMA shall include all regulatory requirements and documents required by SAMA to examine the application.

- The applicant presents a professional liability insurance policy covering negligence, errors and omissions from an Insurance Company. The insurance coverage shall not be less than (5,000,000) five million Saudi riyals.

4.6.2 Technical Requirements for Linking with Insurance Companies:

- The Insurance Aggregator shall improve and operate the Electronic Platform to carry out Insurance Aggregation Activities and develop standard technical interfaces through Web Services to ensure the following:
    • Exchange of information and electronic communication with the Insurance Companies' technical systems in order to exchange basic client information with Insurance Companies.
    • Enable companies to assess insured risks.
    • Provide the client with insurance quotes online and the payment method.

- Perform any operations required by Insurance Aggregation Activities.

- Insurance requests, offers and policies shall be submitted, received and issued instantly through the Web Services “API” linked between the Electronic Platform and the technical systems of the Insurance Companies.

- Prior to linking with an Insurance Company, the Insurance Aggregator shall ensure that the Insurance Company’s IT infrastructure is ready and equipped to allow information exchange.

4.6.3 Obligations of Insurance Aggregator and Insurance Company:

- The electronic linkage between Insurance Companies and Insurance Aggregators shall be for the purpose of conducting Insurance Aggregation Activities only and shall not be used for any other purposes.
- Comply with SAMA instructions with respect to commission rates.
- Inform the clients of any matter related to the insurance process through email and text messages.
- Set a mechanism to prevent fraud incidents that might occur while selling insurance products through the platform. The mechanism shall include but not limited to the following:
  - The Insurance Aggregator shall not insure more than five vehicles belonging to the same insured.
  - The insurance policy shall be linked with the insured’s personal data and information after verifying it through an approved, reliable and independent source;
  - The national address shall be directly and automatically linked. Manual insertion of the national address shall not be allowed.

The Insurance Company shall:

- Offer insurance products’ prices in accordance with the approved underwriting guidelines.
- Notify the Insurance Aggregator through the Electronic Platform once the insurance policy is issued, providing the Insurance Aggregator with all policy information, including the duration of the policy and coverage limits, as well as an electronically signed and dated digital copy of the insurance policy.
- Disclose the required information related to the insurance policies it issued.
- Take all necessary procedures to protect the confidentiality of such information.

4.6.4 The Insurance Aggregator shall:

- Adopt a business plan approved by a resolution of the company's Board of Directors after obtaining SAMA's non-objection.
- Clarify the nature of services provided for clients through its Electronic Platform.
- Disclose license information to clients.
- Obtain appropriate approvals and acknowledgements from the clients before using the Electronic Platform.
- Provide a list of insurance companies that have been linked to through the Electronic Platform. Such list serves as a reference for clients.
- The Insurance Aggregator shall clarify and provide on the Electronic Platform all terms and conditions of the Electronic Platform, security instructions, payment methods, information confidentiality, other instructions pertaining to the use of the Platform.
- Provide a website feature that enables the clients to upload photos and files in order for the Insurance Company to accurately price the insurance policy.
- Apply Two-Factor Authentication (2FA) process to finalize the insurance policy purchase, through text message and email.
- Disclose data of commissions received as a result of the insurance policies.
- Notify clients of any fees or extra charges in exchange for any related services.
- Send an email or text message to the clients with the insurance premium and the phone number of complaint management department or client service department at the Insurance Company.
- Notify the clients of any changes in disclosure and conditions.
- Notify the client in case the Insurance Company refuses to issue the policy or if additional documents are requested through email and text message.
- Provide a feature on the Electronic Platform that enables clients to contact the Insurance Aggregator's client service representatives directly through the platform.
- Not receive any insurance premiums on behalf of the Insurance Company as such premiums shall be collected by the Insurance Company directly.
- Notify the clients before the expiration of the insurance policy within reasonable time, in not less than 15 days.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. What is the difference between insurance brokers and agents?
Answer Reference: Section 4.1.1

2. Compare insurance broker with reinsurance broker?
Answer Reference: Section 4.1.1

3. What are the most important Rules Governing Insurance Brokerage Activities?
Answer Reference: Section 4.2

4. What are Obligations of a Broker Towards Insurance Company?
Answer Reference: Section 4.1.1

5. What are Obligations of a Broker Towards Insurance Company?
Answer Reference: Section 1.4.4

6. Mention the functions of insurance brokers and agents?
Answer Reference: Section 4.5

7. What are key license requirements for insurance aggregation activities?
Answer Reference: Section 4.6.1

Chapter Five

Outsourcing of Insurance and Reinsurance Companies and Insurance Service Providers

This part of book accounts for approximately 10 out of the 100 questions of the test.

5 - Introduction:

This chapter enumerates SAMA's requirements for Insurance/Reinsurance Companies and Insurance Services Providers that have entered or are intending to enter Outsourcing arrangements under the Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers issued by SAMA. This regulation is also applicable to any Outsourcing arrangements whether with a domestic or foreign Third Party. The objective of this regulation is to set controls to organize the relationship between Insurance/Reinsurance Companies and Insurance Services Providers and Third Parties in order to ensure that this relationship does not affect the compliance with laws and regulations governing the Saudi Insurance Market, and that Outsourcing Arrangements do not hinder Policyholders' rights.

5.1 Owners and companies of Insurance Service Providers and the role of Compliance Department in dealing therewith:

Learning Objective

To be familiar with what is meant by: Outsourcing, insurance companies and insurance service providers, the outsourced third party, material functions, material outsourcing, and non-material functions.
Role of Compliance Department

5.1.1 Concept of Outsourcing:

"Outsourcing" refers to an Arrangement under which a Third Party (Service Provider) undertakes to provide a service to Insurance Companies and Service Providers previously carried out by itself or a new service to be offered by it. Dealing with Reinsurance Companies and Insurance/ Reinsurance Brokers, Agents, Insurance Claims Settlement Specialists, Risk Surveyors, Loss Assessors, Loss Adjusters, Actuaries, and Insurance Consultants, is not considered an Outsourcing Arrangement for the purpose of this regulation.

5.1.2 Insurers and Insurance Service Providers:

"Insurers and Insurance Service Providers" refers to any Insurance/ Reinsurance Company and Insurance Service Provider licensed by SAMA under the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations.

5.1.3 Third Party:

"Third Party", refers to any Service Provider to whom an activity is outsourced. A Third Party can be a member of the group to which the institution belongs, related company, or an unrelated Third Party, whether located in Saudi Arabia or elsewhere.

5.1.4 Material Functions:

"Material Functions" refer to underwriting, claims handling, investment, risk management, finance, internal audit, compliance, and primary decision-making processes such as policy sales and renewals.

- Material Outsourcing: "Material Outsourcing" refers to an Outsourcing Arrangement which, if disrupted, has the potential to significantly impact an institution's business operations, reputation or profitability. Typical examples of material outsourcing are as follows:
    - Arrangements involving financial data (e.g., Outsourcing an accounting function).
    - Applications processing (e.g., purchasing a new policy).
    - Back-office management (e.g., funds transfer and payroll processing).
    - Underwriting services
    - Complaints handling
    - Investment management
    - Information system management and maintenance (e.g., data entry and processing, data centers, IT hosting, end-user support)
    - Manpower management
    - Marketing and Research (e.g., product development, data warehousing and mining, call centers, and telemarketing of insurance products and services)
    - Business continuity and disaster recovery capacity and capabilities.

5.1.5 Concept of Non-material functions:

The processes that are not related to: underwriting, claims handling, investment, risk management, finance, internal audit, compliance, and primary decision-making processes such as policy sales and renewals.

- Non-Material Outsourcing:

  The following are examples of non-material Outsourcing:
    - Utilities such as telephone and electricity.
    - Market information services.
    - Advisory services (e.g., legal opinions).
    - Independent consulting

- Mail and courier services.
- Printing services (e.g., policy wording, forms, and business cards).
- Purchase of goods including after sales or other support services, commercially available software, and other commodities.
- Credit and background check and information services.
- Employment of contract or temporary personnel, head hunting services, employee assessment, and consulting on staff development.
- Security services.
- Programming work.
- Building maintenance and cleaning services etc.

5.2 Compliance Rules and Requirement:

- Insurers and Insurance Service Providers should establish appropriate internal controls and procedures to ensure and monitor compliance with this regulation.
- Insurers and Insurance Service Providers should maintain adequate records to demonstrate compliance with this regulation, including Outsourcing contracts and an Outsourcing policy.
- Non-Compliance with the requirements set forth in this regulation will be deemed a breach of the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations and licensing conditions and subject violating Insurers and Insurance Services Providers in case of non-compliance to enforcement action.

5.3 Getting familiar with Overarching Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers:

Learning Objective:

To be familiar with overarching rules of outsourcing regulation for insurance and reinsurance companies and insurance service providers, in addition to accountability and compliance.

5.3.1 Overarching Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers:

- Insurers and Insurance Services Providers should ensure that Outsourcing does not reduce the protection available to policyholders and is not used as a way of avoiding compliance with regulatory requirements.
- Insurers and Services Providers have to comply with the following:
- Develop and put in place an Outsourcing policy duly approved by their Board of Directors within 180 days from the date of issuance of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers. For unlicensed companies, the Outsourcing policy should be part of the licensing requirements.
- All new Outsourcing Arrangements as well as renewal of existing arrangements must be made in accordance with this regulation.
- Review their existing Outsourcing contracts against this regulation.
- Submit details of all existing Material Outsourcing Arrangements to SAMA within 120 days from the date of issuance of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers.
- Notify SAMA in the event of any legal or regulatory violation in their Outsourcing Arrangements.
- Rectify and remove any deficiencies from the existing contracts within 365 days from the date of issuance of this regulation or on renewal date of the contracts, whichever comes first.

5.3.2 Accountability:

The Board of Directors and management of Insurers and Insurance Service Providers retain the ultimate responsibility for all their Outsourcing Arrangements, including compliance with all relevant laws, regulations and instructions.

5.3.3 Obligations:

- The Board of Directors and management of Insurers and Insurance Service Providers should ensure that appropriate policies are developed and implemented within the proper risk management framework for Outsourcing arrangements.
- Insurers and Insurance Service Providers should make sure that the process of entering into Outsourcing contracts is free from any conflict of interest.
- The Outsourcing policy should provide for the development, implementation and update of detailed procedures for managing Outsourcing Arrangements. As a minimum the procedures should include the following:
  • Roles and responsibilities of the Board of Directors and management.
  • Risk identification criteria and risk mitigation measures.
  • Systems for monitoring and controlling Outsourcing activities.
  • Eligibility and qualification criteria for selection of the Third Party.
  • All requirements set forth in Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers:
- Insurers and Insurance Service Providers' management and Board of Directors should ensure that all existing and proposed Outsourcing Arrangements have been subject to a comprehensive risk review process at inception and renewal. This process should evaluate key risk factors namely operational, legal, reputation and regulatory risks and risk mitigation strategies for each Outsourcing proposal.
- Before entering into an Outsourcing Arrangement, Insurers and Insurance Service Providers are required to analyze the business case and suitability of the Third Party by conducting due diligence on the following:
  • The Third Party's financial, technical and professional background and capabilities.
  • Impact of the Outsourcing on the overall risk profile of Insurers and Insurance Service Providers.
  • Impact of the Outsourcing on systems and controls within Insurers and Insurance Service Providers.
- The level and extent of due diligence will depend on the nature of the Outsourcing Arrangement, i.e., Material Outsourcing will entail a more comprehensive exercise.

- Insurers and Insurance Service Providers must establish a method for assessing the Third Party on a yearly basis and retain the necessary expertise to supervise their outsourced functions effectively.

5.4 Study of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers:

Learning Objective:

To be familiar with Specific Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers, in accordance with: Contract Wording, Policyholders' rights, Requirements for Material Outsourcing Arrangements, Requirements for Overseas Outsourcing Arrangements and Control and Monitoring.

5.4.1 Contract Wording:

- Insurers and Insurance Service Providers should document their Outsourcing Arrangements through a written, legally binding contractual agreement compliant with all applicable regulatory requirements. As a minimum, the contract should incorporate the following:

- Contracted parties.
- Scope of the contract.
- Service levels and performance requirements.
- Audit and monitoring procedures.
- Business continuity plans.
- Default arrangements
- Pricing and fee structure.
- Dispute resolution mechanisms.
- Liability and indemnity.
- Contract Period.
- Confidentiality, privacy and security of information.
- Any contractual obligations of the Third Party in case of subcontracting all or part of the Outsourcing Arrangement.
- Reporting and escalation mechanisms.
- Commitment from the Third Party to report to Insurers and Insurance Service Providers any control weaknesses or adverse developments in its financial performance.

- • Commitment from the Third Party to return or destroy all Data upon the termination of the Outsourcing arrangement or contract. As long as there are no regulatory requirements to keep such records.

- The contract should allow for renewal, renegotiation, default termination and early exit so as to enable Insurers and Insurance Service Providers to retain control over the outsourced activity.
- Furthermore, the contract should incorporate a clause for providing SAMA access to documentation and accounting records in relation to the Outsourcing.
- The contract should indicate that the Saudi Arabian judicial authorities are the relevant authorities for the settlement of disputes arising from the enactment or the explanation of the Outsourcing contract.

5.4.2 Policyholders' rights:

- Insurers and Insurance Service Providers should institute a defined internal mechanism for receipt and resolution of any policyholder complaints.
- Insurers and Insurance Service Providers should establish proper safeguards to protect the integrity and confidentiality of Policyholder Data and Financial Data including but not limited to:
  - • Obtaining non-disclosure agreements.
  - • Providing Policyholder Data and Financial Data to a Third Party on a need-to-know basis only.
  - • Requiring the Third Party to segregate their data from other data pools.
- Upon termination of the Outsourcing Arrangement and contract for whatever reason, Insurers and Insurance Service Providers should ensure that all Data of the outsourced activity is either retrieved from the Third Party or destroyed.
- Insurers and Insurance Service Providers should refer to SAMA's Market Code of Conduct Regulation for data confidentiality and security.

5.4.3 Requirements for Material Outsourcing Arrangements:

- Insurers and Insurance Service Provides should seek SAMA's written no objection prior to undertaking any Material Outsourcing.
- Material Functions should be assessed on a case-by-case basis.
- Proposals for all Material Outsourcing should be submitted to SAMA in writing, at least 30 working days for a domestic Third Party and 60 working days for a foreign Third Party prior to the proposed date of commencement of the Outsourcing Arrangement.
- The Board of Directors should ensure that each proposed Outsourcing function has

been assessed qualitatively and quantitatively and classified it as material or non-material prior to submitting to SAMA.

- Insurers and Insurance Service Providers may seek SAMA's guidance if uncertain whether or not an existing or new arrangement is considered material or non-material.
- For Material Outsourcing, the contract should include provisions that prohibit subcontracting without the prior approval of Insurers, Insurance Service Providers and SAMA.
- Insurers and Insurance Service Providers should immediately report to SAMA any breach of legal and/ or regulatory requirements or any developments relating to a Material Outsourcing Arrangement.

5.4.4 Requirements for Overseas Outsourcing Arrangements:

- For any proposed Outsourcing Arrangements involving transmission, processing and retention of Policyholder Data and/ or Financial Data and/ or Material Outsourcing to a Third Party located overseas, Insurers and Insurance Service Providers should provide the following information to SAMA accompanying their request:
    - Details of the function to be outsourced.
    - Categorization of the function (material or non-material Outsourcing).
    - Reason for Outsourcing.
    - Details on the Third Party located overseas, e.g., name, country, address, license, activity, etc.
    - Details on the nature and disposal of the data to be transferred.
    - Details on the confidentiality agreement between Insurers or Insurance Service Providers and the Third Party.
    - Confirmation in writing by Insurers or Insurance Service Providers supported by a legal opinion affirming SAMA's right of access to the Outsourcing activity at the Third Party.

5.4.5 Control and Monitoring:

- Insurers and Insurance Service Providers should ensure that their business continuity is not compromised by any Outsourcing Arrangements. For all material Outsourcing Arrangements, Insurers and Insurance Service Providers should have a contingency plan which outlines the procedures to be followed in the event of sudden termination of an arrangement or the inability of a Third Party to fulfill its obligations under the Outsourcing agreement for any reason. In addition, Insurers and Insurance Service Providers should document within their business continuity plans the availability of an alternative Third Party or the procedures for bringing the outsourced material function in-house.

- Insurers and Insurance Service Providers should put in place an internal structure to monitor, manage and control all of their Outsourcing activities and to provide timely reports to senior management.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. What is meant by Outsourcing?
Answer Reference: Section 5.1.1

2. Compare material and non-material functions?
Answer Reference: Section 5.1.5 & 5.1.4

3. Mention five typical cases of material outsourcing arrangements?
Answer Reference: Section 5.1.4

4. Mention five typical cases of non-material outsourcing arrangements?
Answer Reference: Section 5.1.5

5. Explain Specific Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers, in accordance with contract wording?
Answer Reference: Section 5.4.1

6. Explain in brief the specific rules of outsourcing regulation for insurance and reinsurance companies and insurance service providers, in accordance Policyholders' rights.
Answer Reference: Section 5.4.2

7. What are the requirements for material outsourcing arrangements?
Answer Reference: Section 5.4.3

8. What are key requirements for overseas outsourcing arrangements?
Answer Reference: Section 5.4.4

9. What are the overarching rules of outsourcing regulation for insurance and reinsurance companies and insurance service providers?
Answer Reference: Section 5.3

Glossary of Terms

Risk
The mental condition that afflicts people when they make decisions during their daily lives, which results in a state of doubt, fear or uncertainty about the results of such decisions, and may cause loss or damage.

Non-economic Risk
Non-financial or non-economic risks mean risks which have a psychological impact that is not subject to physical assessment, and are therefore called moral risks, and thus result in moral loss that is totally unrelated to economic, as it does not entail any significant change in the financial position of the person at risk and therefore cannot be quantitatively measured.

Economic Risk
Economic risks are the risks which causes realization result in a material loss to the endangered person himself or his property and consequently affect his financial position.

Speculative Risks
Such risks are called commercial risks or expected profit risks, as they mean the risks that a person causes and its result may be profit or loss. The motive of these risks is the person’s aspiration for profit.

Pure Risks
The risks that a person has nothing to do with their creation and realization and they always result in a certain financial loss. A person cannot prevent their realization or prevent the loss that results therefrom, except through the development of a policy or a means to confront them.

Individuals’ risks
If causes of these risks were realized, they would have an impact on the people themselves, whether in their lives, health or any organ of their bodies.

Property risks
If causes of these risks were realized, they have an impact on people’s property and lead to its destruction or damage, such as risk of fire, explosion, theft, earthquakes, sickness and death (as in the case of living property such as cattle, sheep and others).

Civil liability risks
Risks that if realized, do not directly affect persons or their property, but affect a person’s civil liability before the law towards others whether in person or property. These risks entail the obligation of the responsible person before the law to compensate the person who has suffered the damage.

Insurance
Insurance is the key way to confront or manage risks, as insurance is a risk-management system designed by the insurer (the insurance company) to reduce the uncertainty of the insured (contracted persons) by compensating them for the financial losses they incur for paying certain premiums.

Personal accident insurance
This type of insurance covers the risks of personal accidents and provides compensation in the event of death or disability due to an accident occurring anywhere in the world.

Work injury insurance
This insurance covers the costs of employees and workers' injury risks, including medical, legal and compensatory expenses.

Product liability insurance
This insurance covers risks related to legal liability as a result of injury to individuals or property arising as a result of the products provided by the insured.

Insurance of funds in the treasury and during transportation
The insurance, which covers the risk of money theft or loss when transported from different places, such as between bank branches or between companies and banks, etc.

Theft and burglary insurance
It covers the costs of theft risks and covers the value of property and losses related to use of force and violence.

Professional liability insurance
The coverage against breach of the profession duty such as negligence, error or omission, and the most important type of this insurance is insurance against errors in the practice of medical professions.

Fidelity Insurance
This insurance covers all financial losses resulting from the breach of trust by the insured's employees, whether through criminal acts, theft or embezzlement by the insured person.

Travel insurance
Provides coverage against various risks that may arise in travel, such as loss of luggage, loss of funds, flight delays and medical emergencies.

Land transport insurance
Covers risks related to land transport that may cover goods and vehicles.

Motor insurance
This is one of the most famous types of insurance and covers the damage to vehicles resulting from traffic accidents, fires, theft and others, in accordance with the policy terms.

Property insurance

This type of insurance covers the potential risks to private property, including factories, companies, goods and warehouses, which are insured in the event of any disaster, such as fire, lightning strike, etc.

Marine Insurance

Covers risks of various accidents occurring on cruises, which may include risks relating to cargo, ships, and passengers.

Aviation Insurance

Covers risks of various accidents occurring in an aviation and may include risks related to passengers, aircraft, baggage and cargo.

Energy Insurance

Covers risks to petroleum facilities, petrochemical facilities, other energy facilities, energy suppliers and the like.

Engineering Insurance

It covers risks of contractors, installation and construction, electrical and electronic appliances and damage to machinery, equipment, devices or machines, and tools.

Healthcare

The insurance that covers costs of diseases and covers costs of medicines, physicians' consultations, surgeries, all medical and treatment services and supplies, and management of medical programs.

Protection Insurance

It includes insurance operations that relate to the effects of death and permanent total, partial or temporary disability of individuals and groups.

Protection and Savings Insurance

It includes insurance operations whereby the insurer pays an amount(s), including the proceeds of savings at a future date, for contributions paid by the insured.

Insurance brokerage companies

The insurance broker is the legal person who, in return for payment, negotiates with the insurance companies to complete the insurance process for the insured.

Insurance Agents

Insurance agent is defined as the legal person who, for a fee, represents an insurance company, markets and sells insurance policies, and all works it usually carries out for or on behalf of the insurance company.

Actuarial Expert
Actuarial Expert is defined as the person who implements the theory of probabilities and statistics under which services and insurance products are priced, obligations are valued and provisions are made.

Underwriting
Underwriting is a primary function of any insurance company. It is the process by which the underwriter decides to accept or not to accept the insurance offer and sets the necessary conditions, price and premium.

Reinsurance
It is the process by which the insured risk burden is transferred from the insurance company to a reinsurance company. The reinsurer compensates the insurance company for the compensation payment made to the insured if they suffered damage or loss in the event of an accident.

Insurance Corporate Governance
Set of laws, regulations and decisions aimed at achieving quality and excellence in performance by selecting appropriate and effective methods to achieve the plans and objectives of insurance companies.

Compliance
An independent function that identifies, evaluates, advises, monitors and prepares non-compliance risk reports in insurance companies.

Money laundering
Commit or initiate any act meant to conceal or camouflage the original source of money obtained in a manner violating shariah or law and make such monies appear to be legitimate.

Terrorism financing
Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, directly or indirectly from a legitimate or illicit source. or to engage in any banking, financial or commercial transaction in favor of such activity or involved individuals, or obtain, directly or through an intermediary, funds for its use, advocacy and promotion of its principles, to secure training places, shelter and provide involved individuals with any kind of weapons or counterfeited documents, or to provide any other means of support and financing intentionally. Furthermore, any act that constitutes a crime subject to the International Convention for the Suppression of the Financing of Terrorism.

Defrauding insurance companies
Insurance fraud is defined as any act or negligence intended to obtain dirty money or achieve illegal gain for the party who committed the fraud or for third parties.

Reinsurance broker

A Reinsurance broker is defined as a juristic entity that negotiates contracts of reinsurance between an insurance company and a reinsurance company on behalf of the insurance company, receiving commission for placement and other services rendered from the reinsurance company.

Material Functions

"Material Functions" refer to underwriting, claims handling, investment, risk management, finance, internal audit, compliance, and primary decision-making processes such as policy sales and renewals.

Non-Material Functions

The processes that are not related to: refer to underwriting, claims handling, investment, risk management, finance, internal audit, compliance, and primary decision-making processes such as policy sales and renewals.

Multiple Choice Questions (MCQs):

The questions are developed to give students an overview sample of test questions. Kindly be aware that these are not the actual questions approved for Professional Certificate of “Compliance of Insurance Companies Sector”
Kindly choose one answer for each question. Then check the answers at the end of this section.

1. Risk elements include that the risk shall:
a. Be certain
b. Be impossible
c. Be Possible.
d. Cause moral loss.

2. The risk can be covered if it:
a. Be certain
b. Be impossible
c. Happened in the past
d. Expected to occur in the future.

3. The mental condition that afflicts people when they make decisions during their daily lives, which results in a state of doubt, fear or uncertainty about the results of such decisions, and may cause loss or damage.
a. Risk
b. Insurance
c. Incident:
d. Self-Insurance

4. Risks that have a psychological impact that is not subject to physical assessment
a. Speculative Risks
b. Pure Risks
c. Economic Risk
d. Non-financial Risk

5. Risks whose causes result in a material loss to the endangered person himself or his property.
a. Insurance
b. Precaution and Prevention Strategies
c. Economic Risk
d. Non-financial Risk

6. Risks that a person causes and its result may be profit or loss.
a. Speculative Risks
b. Self-Insurance
c. Contributing Perils
d. Non-financial Risk

7. Risks that a person is not involved in their creation and realization and they always result in a certain financial loss, while a person cannot prevent their realization.

a. Speculative Risks
b. Pure risks
c. Contributing Perils
d. Non-financial Risk

8. Risks that entail the obligation of the responsible person before the law to compensate the person who has suffered the damage.

a. Speculative Risks
b. Civil Liability Risks
c. Property risks
d. Non-financial Risk

9. Risks whose causes, if realized, would have an impact on people's property and lead to its destruction or damage.

a. Speculative Risks
b. Civil Liability Risks
c. Property risks
d. Non-financial Risk

10. Risks whose causes, if realized, would have an impact on the people themselves, whether in their lives, health or any organ of their bodies.

a. Speculative Risks
b. Civil Liability Risks
c. Property risks
d. Individuals risks

11. Risk management strategy whereby the person or facility at risk bears the effects and results of such risk and consequent financial losses.

a. Insurance
b. Precaution and Prevention
c. Risk transfer
d. Risk Retention

12. Risk management strategy whereby the person or facility at risk bears the effects and results of such risk, if the expected losses are small and non-recurring, and the person's financial position enables him to bear the consequences.

a. Insurance
b. Precaution and Prevention
c. Risk transfer
d. Risk Retention

13. Risk management strategy that reduces the phenomenon of uncertainty among the insured, by compensating them for financial losses in return for certain premiums.
a. Insurance
b. Precaution and Prevention
c. Risk transfer
d. Risk Retention

14. Risk management strategy that involves transferring the risk from the person at risk to another person, according to a contract or agreement between them, provided that the latter bears the loss that occurs when the accident happens while the former pays the cost of such risk in return.
a. Risk avoidance
b. Precaution and Prevention
c. Risk transfer
d. Risk Retention

15. Risk management strategy whereby a natural or legal person saves part of his income to face potential risks.
a. Risk avoidance
b. Saving and Self-Insurance
c. Risk transfer
d. Risk Retention

16. Risk management strategy that enables influencing and reducing the factors involved in occurrence of risk.
a. Risk avoidance
b. Saving and Self-Insurance
c. Risk transfer
d. Precaution and Prevention

17. Taking a decision to avoid initiating a specific industry (e.g. nuclear reactor) to avoid radioactive emissions, is an example on a risk management strategy known as:
a. Risk avoidance
b. Saving and Self-Insurance
c. Risk transfer
d. Precaution and Prevention

18. Risk management strategy that is criticized for losing many potential opportunities and advantages, e.g., ease of travel, plane travel time-saving, or energy generating through nuclear reactors.
a. Risk avoidance
b. Saving and Self-Insurance
c. Risk transfer
d. Precaution and Prevention

19. Vaccinating children against some diseases is an example on a risk management strategy known as:
a. Risk avoidance
b. Saving and Self-Insurance
c. Risk transfer
d. Precaution and Prevention

20. Insurance that covers costs of diseases and medicines, doctors' consultations, surgeries, all medical and treatment services and supplies.
a. Motor insurance
b. Marine Insurance:
c. Healthcare
d. Protection and Saving Insurance

21. Insurance that includes insurance operations that relate to the effects of death and permanent total, partial or temporary disability of individuals and groups.
a. Protection Insurance
b. Marine Insurance:
c. Property insurance:
d. Motor insurance

22. Insurance that covers risks of contractors, installation and construction, electrical and electronic appliances and damage to machinery, equipment, devices or machines, and tools.
a. Protection Insurance
b. Engineering Insurance:
c. Property insurance:
d. Motor insurance

23. Economic benefits of insurance include:
a. Community stability
b. Increasing productivity efficiency
c. Providing safety and reassurance
d. Spreading awareness of responsibility

24. Social benefits of insurance include:
a. Promoting both the Balance of Payments (BOP) and Balance of Trade (BOT) in a country.
b. Increasing productivity efficiency
c. Providing safety and reassurance
d. Generating huge capitals

25. This channel is a mean of selling insurance products through the insurance company, either directly through the direct contact with the insurance applicants or through sales representatives of the insurance company:

a. Selling through Insurance intermediaries

b. Sale through insurance agents

c. Sale through banks

d. Direct sale:

26. A term defined as "Set of laws, regulations and decisions aimed at achieving quality and excellence in performance by selecting appropriate and effective methods to achieve the plans and objectives of insurance companies."

a. Risk management

b. Insurance

c. Corporate Governance

d. Direct sale:

27. A term that distinguishes corporate governance definition:

a. Transparency

b. Insurance

c. Risk management

d. Perils

28. A term that is not among the terms that distinguishes corporate governance definition:

a. Transparency

b. Equity

c. Making information available to parties other than the company's stakeholders.

d. Accountability

29. An essential function that aims to prevent the insurance company from being subject to statutory or administrative penalties, financial losses, or damage to its corporate reputation.

a. Compliance

b. Marketing

c. Marketing

d. Sale

30. Not one of compliance function's objectives:

a. Accurate planning and organization

b. Consolidate relations with regulatory entities

c. Avoidance of Non-compliance risk

d. Failure to confront anti-laundering crimes

31. Not one of compliance function's duties:
a. Avoid cooperating with regulators
b. Establish the principles of corporate governance in financial institutions
c. Safeguard professional values and practices
d. Avoidance of Non-compliance risk

32. One of Non-compliance risks:
a. Loss of professional license
b. Establish the principles of corporate governance in financial institutions
c. Safeguard professional values and practices
d. Maintaining market share

33. Not among the duties and responsibilities of the Supervisory Compliance Officer:
a. Identify and assess risks associated with corporate activities.
b. Monitor only normal, unsuspicious operations
c. Adhere to confidentiality requirements at work.
d. Seek corporate compliance culture, and raise awareness on importance of compliance.

34. Not among the main supervisory compliance activities
a. Administrative supervision over compliance officers.
b. Examination and evaluation of the qualifications and experience of Compliance Officer.
c. Dismissing or transferring the compliance officer from his position without obtaining the approval of the board of directors.
d. Evaluate compliance policy periodically.

35. Which of the following defines the role and responsibilities of the board of directors, the senior management and all employees with respect to compliance?
a. Required resources to manage the compliance program
b. Compliance control
c. General Compliance Policy
d. Evaluate compliance policy periodically.

36. A compliance assessment plan, shortcomings documentation and corrective plans shall be described to ensure application of laws and regulations; and avoid violations.
a. Required resources to manage the compliance program
b. Compliance control
c. General Compliance Policy
d. Compliance employees' responsibilities

37. Violating laws, regulations, supervisory controls, rules and circulars related to the financial institution's activity, which leads to incurring penalties by such institution, is called _____ risk:

a. Reputation.

b. Legal.

c. Conflicts of Interest

d. Non-compliance

38. An element of the proper Code of Conduct

a. Required resources to manage the compliance program

b. General and ethical behavior.

c. Communication and training methods

d. Non-compliance

39. Promoting corporate values and encouraging cooperation and coordination between the financial institution's corporate departments, insurance sector and regulatory bodies, are considered among:

a. Objectives of proper Code of Conduct.

b. Elements of proper Code of Conduct.

c. Requirements for proper professional conduct.

d. Non-compliance

40. Ensure optimal utilization of the financial institution's assets, is considered among:

a. Objectives of proper Code of Conduct.

b. Elements of proper Code of Conduct.

c. Requirements for proper professional conduct.

d. Non-compliance

41. IAIS Insurance Core Principles include:

a. Non-compliance

b. Conflicts of Interest

c. General behavior and professional discipline.

d. Accountability

42. An independent activity within insurance company, ensuring the protection of assets and accuracy of data contained in accounting books and records.

a. The role of risk committee in insurance companies.

b. The role of internal audit committee in insurance companies.

c. The role of risk committee in insurance companies.

d. The role of legal committee in insurance companies.

43. A committee that carries out periodic review of decisions and instructions issued from time to time by regulatory authorities regarding governance rules and practices, in addition to monitoring the implementation of governance practices, rules and principles.

a. The role of risk committee in insurance companies.
b. The role of internal audit committee in insurance companies.
c. The role of risk committee in insurance companies.
d. The role of legal committee in insurance companies.

44. The Board's responsibility for the performance of third parties outsourced to carry out tasks or manage functions in insurance companies, is an application of one of the provisions of insurance corporate governance, namely:

a. Accountability
b. Disclosure and transparency
c. Independence
d. Conflicts of Interest

45. The Board shall provide the general assembly with a report containing comprehensive and objective assessment of the Company's situation and performance, at least on an annual basis, and is the implementation of an insurance corporate governance provision:

a. Accountability
b. Disclosure and transparency
c. Independence
d. Conflicts of Interest

46. Members of insurance companies' 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, to be renewed each year, which is an application of one of the provisions of insurance corporate governance, namely:

a. Accountability
b. Disclosure and transparency
c. Independence
d. Conflicts of Interest

47. No member of the Board or Senior Management shall, without a prior authorization of the general assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the Company, or trade in any branch of the activities carried out by the Company. This is also an implementation of insurance corporate governance provision:

a. Accountability
b. Disclosure and transparency
c. Independence
d. Conflicts of Interest

48. Compliance with all laws, regulations and instructions related to Appointment Requirements for Leadership Positions in the Financial Institutions Under the Supervision of SAMA, is an application of one of the provisions of insurance corporate governance, namely:

a. Accountability
b. Disclosure and transparency
c. Fitness and propriety
d. Conflicts of Interest

49. Monitoring the implementation of insurance corporate governance practices, rules and principles is a task of:

a. Development and Quality Committee.
b. Risk Committee
c. Internal audit Committee.
d. Governance Committee in insurance companies.

50. Insurance company's Board Chairman shall provide the General Assembly with details of insurance contracts in which members of the Board or Senior Management or their related parties have an interest, is an application of one of the provisions of insurance corporate governance, namely:

a. Accountability
b. Disclosure and transparency
c. Fitness and propriety
d. Conflicts of Interest

51. "The commission or attempt to commit any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source". This is a commission of:

a. Theft
b. Money laundering.
c. Breach of trust.
d. Terrorist Financing

52. Acquires, possesses or uses funds that the person knows are proceeds of crime or from illegal source. This is a commission of:

a. Theft
b. Money laundering.
c. Breach of trust.
d. Terrorist Financing

53. Re-utilizing illegal funds to make them seem as legitimate and acquired from legal source, is among _______ objectives.

a. Money theft.
b. Money laundering.
c. Breach of trust.
d. Terrorist Financing

54. Depositing cash resulting from illegal activities into the financial system in a manner that does not attract attention. This is one of the following money laundering stages:

a. Layering
b. Integration
c. Placement
d. Disclosure and Transparency

55. In such stage, funds are brought into the economy again so that it becomes difficult to distinguish them from funds of legitimate origin. The aim is to legitimize illegal funds and integrate them into the domestic or global economy:

a. Layering
b. Integration
c. Placement
d. Disclosure and Transparency

56. Among risks arising from money laundering crimes are "Breaching and Corrupting Government Structures", which are _____ risks.

a. Political
b. Social
c. Economic
d. Service

57. Among risks arising from money laundering crimes are "Higher Inflation Rate", which are _____ risks.

a. Political
b. Social
c. Economic
d. Service

58. Among risks arising from money laundering crimes are "Higher Unemployment Rates", which are _____ risks.

a. Political
b. Social
c. Economic
d. Service

59. Among social risks arising from money laundering crimes:
a. Lower National Income
b. Higher inflation rate.
c. Distorting the image of financial markets.
d. Higher crime and corruption rate.

60. Among economic risks arising from money laundering crimes:
a. Lower standard of living.
b. Higher Unemployment Rates
c. Lower National Income:
d. Higher crime and corruption rate.

61. Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, directly or indirectly from a legitimate or illicit source. This is a commission to:
a. Theft
b. Money laundering.
c. Breach of trust.
d. Terrorist Financing

62. The last stage of terrorist financing is:
a. Transfer of funds
b. Collection of funds
c. Use of funds
d. Searching for source of funds.

63. Place funds at the terrorists' disposal to cover operational expenses, subsistence, personal and medical expenses, purchase of travel tickets, purchase of weapons and ammunition, combat training, ...etc, is at __________ stage.
a. Use of funds
b. Collection of funds
c. Transfer of funds
d. Searching for source of funds.

64. Risks of Terrorist Financing Crimes:
a. Security destabilization that may lead to mass destruction.
b. Collection of funds
c. Transfer of funds
d. Use of funds

65. Impose a monetary fine of up to SAR 5.000.000 per violation, is a measure to combat:

a. Money Laundering.
b. Terrorist Financing
c. Breach of trust.
d. Theft.

66. Not among AML/CFT rules:

a. ML/TF Risk Assessment
b. Non-Reporting of Suspicious Transactions
c. Due diligence Measures
d. Monitoring and following up transactions and activities.

67. Identifying vulnerabilities that can be used to pass ML/TF operations, is a procedure among AML/CFT rules, related to:

a. ML/TF Risk Assessment
b. Reporting of Suspicious Transactions:
c. Due diligence Measures
d. Monitoring and following up transactions and activities.

68. Insurance products used in money laundering, in most cases, are:

a. Health Insurance
b. Motor insurance
c. Social insurance
d. Life insurance

69. Any act or negligence intended to obtain dirty money or achieve illegal gain for the party who committed the crime or for third parties. is a crime of:

a. Theft
b. Money laundering.
c. Defrauding insurance companies
d. Terrorist Financing

70. A fraud committed by employees of the insurance company:

a. Fraud Practiced by Insurance brokers
b. Internal fraud
c. Fraud Practiced by Policyholders
d. Fraud Practiced by Insurance agents

71. Fraud committed in the purchase or execution of an insurance product for unlawful coverage or payment, is:

a. Fraud Practiced by Insurance brokers
b. Internal fraud
c. Fraud Practiced by Policyholders
d. Fraud Practiced by Insurance agents

72. Companies should, prior to hiring permanent or temporary personnel, thoroughly screen and perform background checks. This is a procedure to combat internal fraud

a. Fraud Practiced by Insurance brokers
b. Internal fraud
c. Fraud Practiced by Policyholders:
d. Fraud Practiced by Insurance agents

73. Sending policies and renewal documents directly to policyholders, is a measure to combat:

a. Fraud practiced by Service Provider
b. Internal fraud
c. Fraud Practiced by Policyholders:
d. Fraud practiced by insurance underwriters.

74. Defining clear and comprehensive claim assessment procedures, a measure to reduce:

a. Fraud Practiced by Insurance brokers
b. Internal fraud
c. Fraud Practiced by Policyholders:
d. Fraud Practiced by Insurance agents

75. Verifying the insurance company's compliance with anti-fraud policies is the responsibility of:

a. External Auditor:
b. Board of Insurance company:
c. Insurance company employees:
d. Internal Audit Department at insurance companies.

76. A juristic entity that for compensation represents the insurance company to solicit, procure and negotiate insurance policies, and all works it usually carries out for or on behalf of the insurance company.

a. External Auditor:
b. Insurance broker
c. Insurance agent
d. Reinsurance broker

77. A juristic entity that for compensation negotiates with the insurance company in order to conduct insurance services for policyholders.

a. External Auditor:
b. Insurance broker
c. Insurance agent
d. Reinsurance broker

78. A juristic entity that for compensation negotiates with the reinsurance company in order to conduct reinsurance agreements for insurance company

a. External Auditor:
b. Insurance broker
c. Insurance agent
d. Reinsurance broker

79. The applicant for insurance aggregator license shall:

a. be a joint stock company only
b. limited liability company only
c. be a joint stock or limited liability company
d. Sole Proprietorship.

80. To practice e-insurance brokerage, only the capital must not be less than:

a. SAR 200.000
b. SAR 300.000
c. SAR 250.000
d. SAR 500.000

81. Selling insurance products through e-platform shall be with a maximum of:

a. 5 vehicles belonging to the same insured.
b. 7 vehicles belonging to the same insured.
c. 8 vehicles belonging to the same insured.
d. 10 vehicles belonging to the same insured.

82. Offering insurance products' prices in accordance with the approved underwriting guidelines, is an obligation of:

a. Insurance company
b. Insurance broker
c. Insurance Aggregator
d. Insured

83. Notify clients of any fees or extra charges, is among _________ responsibilities.

a. Insurance company
b. SAMA
c. Insurance Aggregator
d. Insured

84. Notifying the clients before the expiration of the insurance policy within reasonable time, in not less than 15 days, is an obligation of:

a. Insurance company
b. SAMA
c. Insurance Aggregator
d. Insured

85. Disclosing the required information related to the insurance policies, is an obligation of:
a. Insurance company
b. SAMA
c. Insurance Aggregator
d. Insured

86. The national address shall be directly and automatically linked. Manual insertion of the national address shall not be allowed, is an obligation of:
a. Insurance company only
b. Insurance Aggregator only
c. Insurance Aggregator and Insurance Company
d. Insured

87. Complying with SAMA instructions with respect to commission rates, is an obligation of:
a. Insurance company only
b. Insurance Aggregator only
c. Insurance Aggregator and Insurance Company
d. Insured

88. Approval and settlement of claims is the right of:
a. Insurance companies
b. Insurance brokers
c. Insurance Agents
d. Insured

89. Insurance and reinsurance brokers are entitled to receive their commission:
a. Before issuing the insurance policy.
b. 5 months after the issuance of insurance policy.
c. 7 months after the issuance of insurance policy.
d. Once the insurance policy is issued.

90. Brokers must obtain a written authorization to represent clients with insurance company. This procedure is deemed as:
a. After-sales customer services for insurance products.
b. Statutory requirements.
c. Non-statutory requirements.
d. Information Furnishing

91. Outsourcing of underwriting services is ------ outsourcing.

a. Immaterial.
b. Material.
c. Advisory.
d. Non-advisory.

92. Assigning marketing and research tasks (e.g. product development, data warehousing and mining, call centers, and telemarketing of insurance products and services) is considered as assignment of ________ functions.

a. Immaterial.
b. Material.
c. Advisory.
d. Non-advisory.

93. Outsourcing printing services (e.g., policy wording, forms, and business cards, is .... outsourcing.

a. Non-material
b. Material
c. Underwriting
d. Investment

94. Employee hunting services, employee assessment, and consulting on staff development is ..... outsourcing.

a. Non-material
b. Material
c. Underwriting
d. Investment

95. Material Functions should be assessed on a case-by-case basis, this is a measure of:

a. Requirements for non-consulting outsourcing
b. Requirements for consulting outsourcing
c. Requirements for non-material outsourcing
d. Requirements for Material Outsourcing Arrangements

96. Proposals for all Material Outsourcing should be submitted to SAMA in writing:

a. At least 10 working days for a domestic third party prior to the proposed date of commencement of the Outsourcing Arrangement.
b. At least 25 working days for a domestic third party prior to the proposed date of commencement of the Outsourcing Arrangement.
c. At least 30 working days for a domestic third party prior to the proposed date of commencement of the Outsourcing Arrangement.
d. At least 20 working days for a domestic third party prior to the proposed date of commencement of the Outsourcing Arrangement.

97. Proposals for all Material Outsourcing should be submitted to SAMA in writing:
a. At least 60 working days for a foreign third party prior to the proposed date of commencement of the Outsourcing Arrangement.
b. At least 50 working days for a foreign third party prior to the proposed date of commencement of the Outsourcing Arrangement.
c. At least 40 working days for a foreign third party prior to the proposed date of commencement of the Outsourcing Arrangement.
d. At least 30 working days for a foreign third party prior to the proposed date of commencement of the Outsourcing Arrangement.

98. Insurance companies should maintain adequate records to demonstrate compliance with Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers, including Outsourcing contracts and an Outsourcing policy.
a. Reinsurance department
b. Compliance Management
c. Underwriting department
d. Investment management

99. Outsourcing of policy sales and renewals is:
a. Material
b. Non-material
c. Consulting
d. Non-consulting

100. Arrangements involving financial data (e.g., Outsourcing an accounting function) is _________________ outsourcing.
a. Material
b. Non-material
c. Consulting
d. Non-consulting

Answers to Multiple choice questions (MCQs)

1. Answer: C reference: Chapter 1 section 1.3
For a risk to be insurable, the following characteristics should be present: (Possible - Quantifiable - Occurrence Thereof Causes Financial Loss - Futuristic)

2. Answer: D reference: Chapter 1 section 1.3
For a risk to be insurable, the following characteristics should be present: (Possible - Quantifiable - Occurrence Thereof Causes Financial Loss - Futuristic)

3. Answer: A reference: Chapter 1 section 1.2
Risk is the mental condition that afflicts people when they make decisions during their daily lives, which results in a state of doubt, fear or uncertainty about the results of such decisions, and may cause loss or damage.

4. Answer: D reference: Chapter 1 section 1.4.1
Non-financial or non-economic risks mean risks which have a psychological impact that is not subject to physical assessment.

5. Answer: C reference: Chapter 1 section 1.4.2
Economic risks are the risks which causes realization result in a material loss to the endangered person himself or his property and consequently affect his financial position

6. Answer: A reference: Chapter 1 section 1.4.2
Speculative risks or commercial risks means the risks that a person causes and its result may be profit or loss.

7. Answer: B reference: Chapter 1 section 1.4.2
The risks that a person has nothing to do with their creation and realization and they always result in a certain financial loss. A person cannot prevent their realization.

8. Answer: B reference: Chapter 1 section 1.4.2
Civil liability risks entail the obligation of the responsible person before the law to compensate the person who has suffered the damage

9. Answer: C reference: Chapter 1 section 1.4.2
If causes of property risks were realized, they have an impact on people's property and lead to its destruction or damage.

10. Answer: D reference: Chapter 1 section 1.4.2
Individuals risks have an impact on the people themselves, whether in their lives, health or any organ of their bodies.

11. Answer: D reference: Chapter 1 section 1.53
Risk Retention Strategy means that the person or facility at risk bears the effects and results of such risk and consequent losses. This strategy is effective if the expected losses are small and non-recurring, and the person's financial position allows him to bear the consequences.

12. Answer: D reference: Chapter 1 section 1.53
Risk Retention Strategy means that the person or facility at risk bears the effects and results of such risk and consequent losses. This strategy is effective if the expected losses are small and non-recurring, and the person's financial position allows him to bear the consequences.

13. Answer: A reference: Chapter 1 section 1.5.6
Insurance is the key way to confront or manage risks, as insurance is a risk-management system designed by the insurer (the insurance company) to reduce the uncertainty of the insured (contracted persons) by compensating them for the financial losses they incur for paying certain premiums.

14. Answer: C reference: Chapter 1 section 1.5.5
Risk transfer strategy means transferring the risk from the person at risk to another person, according to a contract or agreement between them, provided that the latter bears the loss that occurs when the accident happens while the former pays the cost of such risk in return.

15. Answer: B reference: Chapter 1 section 1.5.4
Saving and self-insurance is a strategy whereby a natural or legal person saves part of his income to face potential risks.

16. Answer: D reference: Chapter 1 section 1.5.2
Precaution and Prevention Strategy is a strategy that enables prevention of risks in various ways as well as potential financial losses, or at least reduces their scale by influencing and reducing the factors involved in occurrence of such risk.

17. Answer: A reference: Chapter 1 section 1.5.1
Risk Avoidance Strategy means that risks can be avoided by making a passive decision.

18. Answer: A reference: Chapter 1 section 1.5.1
Risk Avoidance Strategy means that risks can be avoided by making a passive decision. This strategy is criticized for losing many of advantages

19. Answer: D reference: Chapter 1 section 1.5.2
Precaution and Prevention Strategy is a strategy that enables prevention of risks in various ways as well as potential financial losses, or at least reduces their scale by influencing and reducing the factors involved in occurrence of such risk.

20. Answer: C reference: Chapter 1 section 1.6.4
Healthcare insurance covers costs of diseases and covers costs of medicines, doctors' consultations, surgeries, all medical and treatment services and supplies, and management of medical programs.

21. Answer: A reference: Chapter 1 section 1.6.5
Protection Insurance includes insurance operations that relate to the effects of death and permanent total, partial or temporary disability of individuals and groups.

22. Answer: B reference: Chapter 1 section 1.6.3
Engineering insurance covers risks of contractors, installation and construction, electrical and electronic appliances and damage to machinery, equipment, devices or machines, and tools.

23. Answer: B reference: Chapter 1 section 1.1.1
Increasing productivity efficiency is an economic benefit of insurance.

24. Answer: C reference: Chapter 1 section 1.7.2
Increasing productivity efficiency is an economic benefit of insurance.

25. Answer: D reference: Chapter 1 section 1.13.2
Direct sale, this channel is a way to sell insurance products through insurance company, directly, whether through direct communication with insurance applicants or through insurance company's sales representatives.

26. Answer: C reference: Chapter 1 section 2.1.1
Governance is a set of laws, regulations and decisions aimed at achieving quality and excellence in performance by selecting appropriate and effective methods to achieve the plans and objectives of finance and economic companies and entities.

27. Answer: A reference: Chapter 1 section 2.1.1
Transparency is among the terms that distinguishes corporate governance definition.

28. Answer: C reference: Chapter 1 section 2.1.1
Making information available to parties other than the company's stakeholders is not among the terms that distinguishes corporate governance definition.

29. Answer: A reference: Chapter 2 section 2.2.1
Compliance is an independent function that identifies, assesses and provides advice, monitors and reports on risks of an insurance company's non-compliance related to its exposure to legal and administrative penalties, financial loss, or what may undermine the company's reputation.

30. Answer: D reference: Chapter 2 section 2.2.2
Combating money laundering operations is one of the objectives of compliance function by finding and applying mechanisms and frameworks that ensure confronting financial crimes.

31. Answer: A reference: Chapter 2 section 2.2.4
Consolidate relations with regulatory entities is a task of compliance function.

32. Answer: A reference: Chapter 2 section 2.4.1
Loss of licenses and failure to obtain such licenses and approvals from regulatory authorities is one of non-compliance risks faced by the insurance company.

33. Answer: B reference: Chapter 2 section 2.5.1
Examining usual, unusual and suspicious operations is among duties and responsibilities of compliance officer.

34. Answer: C reference: Chapter 2 section 2.5.2
One of the main supervisory compliance activities is not to dismiss or transfer the compliance officer from his position without obtaining the approval of the board of directors of financial Institutions.

35. Answer: C reference: Chapter 2 section 2.6.1
General Compliance Policy is a description of the general compliance policy approved by the board of directors and applied to all personnel of the insurance company. The policy defines the role and responsibilities of the board of directors, the senior management and all employees with respect to compliance.

36. Answer: B reference: Chapter 2 section 2.6.4
Compliance control is the description of compliance assessment plan, shortcomings documentation and corrective plans shall be described to ensure application of laws and regulations; and avoid violations

37. Answer: D reference: Chapter 2 section 2.7.4
Non-compliance risk: Violating laws, regulations, rules and procedures relating to the financial institution activity may lead to sanctions against the financial institution.

38. Answer: B reference: Chapter 2 section 2.7.4
General behavior and ethical behaviors are among the elements of proper code of conduct.

39. Answer: A reference: Chapter 2 section 2.7.3
Promoting corporate values and encouraging cooperation and coordination between the financial institution's corporate departments, insurance sector and regulatory bodies are among the objectives of proper code of conduct.

40. Answer: A reference: Chapter 2 section 2.7.3
Ensuring optimal utilization of the financial institution's assets is among the objectives of proper code of conduct.

41. Answer: D reference: Chapter 2 section 2.9
Accountability is one of IAIS International Principles of Governance

42. Answer: B reference: Chapter 2 section 2.9.2

The Internal Audit Committee is an independent activity performed by a specialist within the insurance company and an effective means to assist management in verifying the implementation of administrative policies that ensure the protection of assets and ensure the accuracy of statements contained in books and accounting records, aimed at achieving the greatest productivity efficiency

43. Answer: C reference: Chapter 2 section 2.9.1

The Insurance Companies Governance Committee shall periodically review the decisions and instructions issued from time to time by the regulatory authorities regarding governance rules and practices, as well as monitor the implementation of governance practices, rules and principles

44. Answer: A reference: Chapter 2 section 2.10.1

The Board of Directors is ultimately accountable and responsible for the performance, conduct, and regulatory compliance of the Company. Delegating authority to Board committees or Senior Management shall not absolve the Board of its responsibilities. Furthermore, the Board is responsible for the performance of third parties engaged to perform jobs or manage functions

45. Answer: B reference: Chapter 2 section 2.10.2

In accordance with insurance companies disclosure and transparency provisions, the Board shall provide shareholders during the general assembly meeting with a report containing comprehensive and objective assessment of the Company's situation and performance, at least on an annual basis.

46. Answer: D reference: Chapter 2 section 2.10.5

In accordance with insurance companies' conflicts of Interest provisions, members of the 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, to be renewed each year.

47. Answer: D reference: Chapter 2 section 2.10.5

In accordance with insurance companies' conflicts of Interest provisions, no member of the Board or Senior Management shall, without a prior authorization of the general assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the Company, or trade in any branch of the activities carried out by the Company.

48. Answer: C reference: Chapter 2 section 2.10.3

In accordance with insurance companies Fitness and Propriety provisions, all laws, regulations and instructions related to the requirements for appointment to leadership positions in financial institutions subject to the supervision of SAMA must be adhered to.

49. Answer: D reference: Chapter 2 section 2.9.1
The Insurance Companies Governance Committee shall periodically review the decisions and instructions issued from time to time by the regulatory authorities regarding governance rules and practices, as well as monitor the implementation of governance practices, rules and principles

50. Answer: D reference: Chapter 2 section 2.10.5
In accordance with provisions of conflict of interest for insurance companies' governance, the Board chairman of the insurance company must provide the general assembly with the details of insurance contracts in which a member of the board or senior management or related parties have an interest.

51. Answer: B reference: Chapter 1 section 3.1.1
Article (1) of Money Laundering Law issued by SAMA defines money laundering as
The commission or attempt to commit any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source.

52. Answer: B reference: Chapter 1 section 3.1.1
Article (1) of Money Laundering Law issued by SAMA defines money laundering as
The commission or attempt to commit any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source.

53. Answer: B reference: Chapter 1 section 3.1.1
Article (1) of Money Laundering Law issued by SAMA defines money laundering as
The commission or attempt to commit any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source.

54. Answer: C reference: Chapter 1 section 3.1.1
Placement inn this stage, illegally obtained funds are introduced into the financial system, with the aim of depositing cash resulting from illegal activities into the financial system in a manner that does not attract attention.

55. Answer: B reference: Chapter 1 section 3.1.1
Integration: In this stage, funds are brought into the economy again so that it becomes difficult to distinguish them from funds of legitimate origin. The aim is to legitimize illegal funds and integrate them into the domestic or global economy.

56. Answer: A reference: Chapter 1 section 3.1.1
Breaching and Corrupting Government Structures are among political risk of money laundering crimes.

57. Answer: C reference: Chapter 1 section 3.1.1
Higher inflation rate is one of economic risk of money laundering crimes.

58. Answer: B reference: Chapter 1 section 3.1.1
Higher Unemployment rate is one of social risk of money laundering crimes.

59. Answer: D reference: Chapter 1 section 3.1.1
Higher crime and corruption rate are among social risks of money laundering crimes.

60. Answer: C reference: Chapter 1 section 3.1.1
Lower National Income is one of economic risk of money laundering crimes.

61. Answer: D reference: Chapter 2 section 3.1.1
Terrorism Financing Crime: Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, directly or indirectly from a legitimate or illicit source.

62. Answer: C reference: Chapter 2 section 3.1.1
Use of funds is the final stage of terrorist financing stages.

63. Answer: A reference: Chapter 2 section 3.1.2
Use of funds: Place funds at the terrorists' disposal to cover operational expenses, subsistence, personal and medical expenses, purchase of travel tickets, purchase of weapons and ammunition, combat training, etc.

64. Answer: A reference: Chapter 2 section 3.1.2
Security destabilization that may lead to mass destruction is among the risks of terrorist financing crimes.

65. Answer: A reference: Chapter 3 section 3.1.3
Imposing a monetary fine of up to SAR 5.000.000 per violation, is one of measures to combat money laundering crimes.

66. Answer: B reference: Chapter 1 section 3.2.1
Reporting of suspicious transactions is one of AML/CFT rules

67. Answer: A reference: Chapter 3 section 3.2.1
Identification of the weaknesses that could be used to carry out ML/TF transactions is among the procedures of ML/TF risk assessment in AML/CFT rules.

68. Answer: D reference: Chapter 3 section 3.3.1
Life insurance policies can be used as a source of investment for more tainted money - for example, loans can be taken with the guarantee of this monetary value.

69. Answer: C reference: Chapter 3 section 3.5.2
Insurance fraud is defined as any act or negligence intended to obtain dirty money or achieve illegal gain for the party who committed the fraud or for third parties.

70. Answer: B reference: Chapter 3 section 3.5.3
Internal fraud: A fraud committed by employees of the insurance company

71. Answer: C reference: Chapter 3 section 3.5.3
Fraud Practiced by Policyholders: Fraud committed in the purchase or execution of an insurance product for unlawful coverage or payment.

72. Answer: B reference: Chapter 3 section 3.7.1
Companies should, prior to hiring permanent or temporary personnel, thoroughly screen and perform background checks. This is a procedure to combat internal fraud

73. Answer: A reference: Chapter 3 section 3.7.2
Sending policies and renewal documents directly to policyholders, is a measure to mitigate service provider fraud.

74. Answer: C reference: Chapter 3 section 3.7.3
Companies should define clear and comprehensive claims assessment procedures, is a measure to mitigate insured fraud.

75. Answer: A reference: Chapter 3 section 3.9.4
External Auditor: Among the external auditor's duties is to check the company's compliance with anti-fraud policies.

76. Answer: C reference: Chapter 4 section 4.1.1
An Insurance agent is defined as a juristic entity that for compensation represents the insurance company to solicit, procure and negotiate insurance policies, and all works it usually carries out for or on behalf of the insurance company.

77. Answer: B reference: Chapter 4 section 4.1.1
An Insurance broker is defined as a juristic entity that for compensation negotiates with the insurance company in order to conduct insurance services for policyholders.

78. Answer: D reference: Chapter 4 section 4.1.1
A Reinsurance broker is defined as a juristic entity that negotiates contracts of reinsurance between an insurance company and a reinsurance company on behalf of the insurance company, receiving commission for placement and other services rendered from the reinsurance company.

79. Answer: C reference: Chapter 4 section 4.6.1
Insurance aggregation activities shall be practiced by a joint stock or limited liability company licensed to operate in Saudi Arabia;

80. Answer: D reference: Chapter 4 section 4.6.1
For conducting Insurance Aggregation Activities only, the company shall have a minimum capital of SAR 500,000.

81. Answer: A reference: Chapter 4 section 4.6.3
The Insurance Aggregator shall not insure more than five vehicles belonging to the same insured, to reduce fraud practiced through the sale of insurance products.

82. Answer: A reference: Chapter 4 section 4.6.3
Offering insurance products' prices in accordance with the approved underwriting guidelines, is an obligation of insurance companies.

83. Answer: C reference: Chapter 4 section 4.6.4
Notify clients of any fees or extra charges in exchange for any related services is among the obligations of Insurance Aggregator.

84. Answer: C reference: Chapter 4 section 4.6.4
Notifying the clients before the expiration of the insurance policy within reasonable time, in not less than 15 days, is an obligation of insurance aggregator.

85. Answer: A reference: Chapter 4 section 4.6.3
Disclosing the required information related to the insurance policies, is an obligation of insurance companies.

86. Answer: C reference: Chapter 4 section 4.6.3
The national address shall be directly and automatically linked. Manual insertion of the national address shall not be allowed. These are among obligation of insurance aggregator and insurance company.

87. Answer: C reference: Chapter 4 section 4.6.3
Complying with SAMA instructions with respect to commission rates, is an obligation of insurance aggregator and insurance company.

88. Answer: A reference: Chapter 4 section 4.5.3
Only insurance companies have the right to approve and settle claims.

89. Answer: D reference: Chapter 4 section 4.5.2
Insurance brokers are entitled to receive their commission once the contract is entered into.

90. Answer: B reference: Chapter 4 section 4.5.1
Brokers shall obtain a written approval to represent Clients with the insurance company, is considered one of the legal requirements.

91. Answer: B reference: Chapter 5 section 5.1.4
Outsourcing of underwriting services is material outsourcing.

92. Answer: B reference: Chapter 5 section 5.1.4
Outsourcing of Marketing and Research (e.g., product development, data warehousing and mining, call centers, and telemarketing of insurance products and services, is material outsourcing.

93. Answer: A reference: Chapter 5 section 5.1.5
Outsourcing printing services (e.g., policy wording, forms, and business cards, is non-material outsourcing.

94. Answer: A reference: Chapter 5 section 5.1.5
Employee hunting services, employee assessment, and consulting on staff development is non-material outsourcing.

95. Answer: D reference: Chapter 5 section 5.4.3
Material Functions should be assessed on a case-by-case basis, is a requirement of material outsourcing.

96. Answer: C reference: Chapter 5 section 5.4.3
Proposals for all Material Outsourcing should be submitted to SAMA in writing, at least 30 working days for a domestic Third Party and 60 working days for a foreign Third Party prior to the proposed date of commencement of the Outsourcing Arrangement.

97. Answer: A reference: Chapter 5 section 5.4.3
Proposals for all Material Outsourcing should be submitted to SAMA in writing, at least 30 working days for a domestic Third Party and 60 working days for a foreign Third Party prior to the proposed date of commencement of the Outsourcing Arrangement.

98. Answer: B reference: Chapter 5 section 5.2
Insurers and Insurance Service Providers should maintain adequate records to demonstrate compliance with this regulation, including Outsourcing contracts and an Outsourcing policy.

99. Answer: A reference: Chapter 5 section 5.1.4
“Material Functions” refer to underwriting, claims handling, investment, risk management, finance, internal audit, compliance, and primary decision-making processes such as policy sales and renewals.

100. Answer: A reference: Chapter 5 section 5.1.4
Outsourcing of arrangements involving financial data (e.g., Outsourcing an accounting function) is material outsourcing.

Curriculum Map

Curriculum Unit/Item		Chapter/Section
First element	Concept of Risk Management and Insurance Business	Chapter One
1.1	Upon completing study of this section of the book, the examinee shall:	Section 1:
2 3	Risk Definition: 1.3 Characteristic of Risks 1.3.1 Be Possible 1.3.2 Quantifiable 1.3.3 Cause moral loss 1.4.4 Futuristic	Section 2: Section 3:
4	Types of Risks: 1.4 Types of Risks 1.4.1 non-economic (non-financial) risks 1.4.2 Economic Risk A. Speculative Risks: B. Pure Risks - Individuals' risks - Property risks - Civil liability risks	Section 4:
5	Risk management strategies: Risk management 1.5.2 Precaution and Prevention Strategy 1.5.1 Risk Avoidance Strategy 1.5.3 Risk Retention Strategy 1.5.4 Saving and Self-Insurance Strategy 1.5.5 Risk transfer 1.5.6 insurance	Section 5:
6	Insurance and its types: 1.6 Concept and types of insurance: 1.5.1 Concept of insurance	Section 6:
7	Economic and Social Importance of Insurance: 1.7 Economic and Social Importance of Insurance 1.7.1 Economic Benefits of Insurance 1.7.2 Social Benefits of Insurance	Section 7:

Curriculum Unit/Item		Chapter/Section
First element	Concept of Risk Management and Insurance Business	Chapter One
8	key participants in and regulators of insurance industry in KSA 1.8 key participants in insurance industry 1.8.1 Insurance and Reinsurance Companies 1.8.2 Insurance Profession Companies and Practitioners 1.8.3 Insurance Brokers 1.8.4 Insurance Agents Companies 1.8.5 Actuaries 1.8.6 Surveyors and Loss Adjusters: 1.8.7 Claims Settlement Specialists 1.8.8 Insurance Advisors	Section 8:
9	Regulatory and Supervisory on Insurance Sector in KSA: 1.9 Regulatory and Supervisory Bodies 1.9.1 The Saudi Central Bank (SAMA) 1.9.2 Council of Cooperative Health Insurance (CCHI) 1.9.3 Capital Market Authority (CMA) 1.9.4 Ministry of Commerce (MC): 1.9.5 Ministry of Investment (MISA) 1.9.6 Chamber of Commerce and Industry: 1.9.7 Ministry of Human Resources and Social Development (HRSD): 1.9.8 Other Governmental and Regulatory Bodies	Section 9:
10	General Features of Insurance Companies Sector: 1.10 General Features of the Insurance Sector and Types of Insurance Services Provided by the Sector 1.10.1 Common Features of KSA Insurance Companies in KSA 1.10.2 Other general features of the insurance sector in KSA that are related to the practice of the activity and results of business.	Section 10:
11	Insurance services provided by the insurance sector: 1.11 Types of insurance services provided by the insurance sector 1.11.1 Individual Products 1.11.2 Corporate Insurance products	Section 11:

Curriculum Unit/Item		Chapter/Section
First element	Concept of Risk Management and Insurance Business	Chapter One
12	Obligations of Insurance Company: 1.12 Main Obligations of Insurance Company	Section 12:
13	Rules Regulating the Business of Insurance Companies 1.13 Identification of insurance companies' operations 1.13.1 Marketing for the insurance products: 1.13.2 Selling insurance products 1.13.3 Underwriting 1.13.4 Reinsurance: 1.13.5 Receiving and processing claims 1.13.6 Financial operations 1.13.7 Investment Process 1.13.8 Personnel and administrative processes	Section 13:
14	Requirements for licensing granting and stages for insurance and reinsurance companies. 1.14 Study of general provisions on the requirements for licensing granting and stages for insurance and reinsurance companies 1.14.1 Submit a comprehensive license application to SAMA. 1.14.2 Submit a five-year business plan	Section 14:
15	2.8 Licensing Requirements for Insurance Profession Companies and Practitioners: 1.15 Licensing of Insurance Profession Companies and Practitioners 1.15.1 Submission of the licensing application form for service provider professions 1.15.2 A three-year business plan 1.15.3 An irrevocable bank guarantee in an amount equal to the required capital.	Section 15:
16	Role of SAMA in the oversight of all operations carried out by insurance companies in the Kingdom: 1.16 SAMA's Role in Supervising Insurance Processes	Section 16:

Curriculum Unit/Item		Chapter/Section
Second element	Principles of Insurance Corporate Compliance and Governance	Chapter Two
	Principles of Insurance Corporate Compliance and Governance Upon completing study of this section of the book, the examinee shall:	
2.1	Be familiar with the concept of Insurance Corporate Governance: 2.1 Concept of Insurance Corporate Governance 2.1.1 Definition of Corporate Governance 2.1.2 Objectives of Insurance Corporate Compliance	Section 1:
2	Compliance function: 2.2 Objectives, importance and tasks of compliance function 2.2.1 Compliance function definition 2.2.2 Objectives of Compliance Function 2 2.3 Significance of Compliance in Insurance Companies 2.2.4 Tasks of Compliance Function 2.2.5 Culture of Insurance Corporate Compliance	Section 2:
3	Reasons for establishing independent compliance departments or functions in insurance companies.	Section 3:
4	Risks of non-compliance by insurance companies	Section 4:
5	Key supervisory compliance activities. 2.5 Defining the role of Compliance Officer, and key supervisory compliance activities. 2.5.1 Duties and responsibilities of the Compliance Officer. 2.5.2 Key supervisory compliance activities.	Section 5:
6	Application of supervisory compliance program. 2.6 Requirements of regulatory and supervisory authorities regarding the application of supervisory compliance program. 2.6.1 General Compliance Policy 2.6.2 Required resources to manage the compliance program 2.6.3 Compliance employees’ responsibilities 2.6.4 Compliance control 2.6.5 Communication and training methods	Section 6:

Curriculum Unit/Item		Chapter/Section
Second element	Principles of Insurance Corporate Compliance and Governance	Chapter One
7	Code of Professional and Ethical Conduct to Maintain Reputation and Integrity of Insurance Companies. 2.7 Code of Professional and Ethical Conduct Necessary to Restrict Improper Behavior and Maintain Reputation and Integrity of Insurance Companies. 2.7.1 Code of Professional and Ethical Conduct Necessary to Restrict Improper Behavior and Maintain Reputation and Integrity of Insurance Companies. 2.7.2 Basic Requirements for Sound Professional Conduct in Insurance Companies 2.7.3 Objectives of proper Code of Conduct. 2.7.4 Code of Conduct Elements	Section 7:
8	Insurance Corporate Governance Regulation 2.8 Main Topics of the Insurance Corporate Governance Regulation 2.8.1 Part 1: Introduction 2.8.2 Part 2: General Provisions 2.8.3 Part 3: Specific Provisions	Section 8:
9	International Principles of Governance 2.9 IAIS International Principles of Governance 2.9.1 Role and functions of the Insurance Companies Governance Committee 2.9.2 Role of the Internal Audit Committee in control of insurance companies 2.9.3 Role of the Risk Committee in Governance of Insurance Companies	Section 9:
10	Provisions of Insurance Corporate Governance: 2.10 Insurance corporate governance provisions (accountability, disclosure, etc.). 2.10.1 Accountability 2.10.2 Disclosure and Transparency 2.10.3 Fitness and Propriety 2.10.4 Independence 2.10.5 Conflict of Interest 2.10.6 Remuneration	Section 10:
11	Policy of Insurance Corporate Governance	Section 11:

Curriculum Unit/Item		Chapter/Section
Third element	Compliance principles of Anti-Money Laundering and Countering Terrorism in the Kingdom of Saudi Arabia in Insurance Companies	Chapter Three
	Compliance principles of Anti-Money Laundering and Countering Terrorism in the Kingdom of Saudi Arabia in Insurance Companies Upon completing study of this section of the book, the examinee shall:	
1	Money-laundering and terrorism financing operations: 3.1 Nature, stages, risks and methods of combating money-laundering and terrorism financing. 3.1.1 Concept of Money Laundering Processes 3.1.2 nature of TF processes Methods of Combating Money Laundering and Terrorist Financing	Section 1:
2	Combat money laundering and terrorist financing 3.2 Combating Money Laundering and Terrorist Financing 3.2.1 AML/CTF Rules 3.2.2 KSA's AML/CTF Initiatives	Section 2:
3	Relationship of ML/TF crimes with insurance companies. 3.3 Relationship of ML/TF crimes with insurance companies. 3.3.1 Life insurance 3.3.2 Premium products	Section 3:
4	Requirements of Anti- Money Laundering and Counter-Terrorism Financing in insurance companies: 3.4 General Provisions of AML/CTF Requirements in Insurance Companies 3.4.1 General Provisions of AML/CTF Requirements in Insurance Companies 3.4.2 KSA's AML/CTF efforts in insurance companies	Section 4:
5	Fraud and its Types in Insurance Companies: 3.5 Fraud and its types in insurance companies. 3.5.1 Concept of Fraud: 3.5.2 Definition of Fraudulent acts against insurance companies 3.5.3 Types of Fraud:	Section 5:
6	Detection and reduction of fraud 3.6 Standards of fraud detection and reduction	Section 6:

Curriculum Unit/Item		Chapter/Section
Third element	Compliance principles of Anti-Money Laundering and Countering Terrorism in the Kingdom of Saudi Arabia in Insurance Companies	Chapter Three
6	4.6.1 Standards that insurance companies must comply with to detect and reduce fraud	Section 6:
7	Methods of combating fraud in proportion to the source of fraud risk. 3.7 Anti-fraud methods appropriate to the source of fraud risk to which the insurance company is exposed 3.7.1 Internal Fraud Prevention 3.7.2 Mitigation of Service Provider Fraud: 3.7.3 Mitigation of Policyholders Fraud	Section 7:
8	Policies and procedures necessary to implement the anti-fraud and risk management strategy.	Section 8:
9	Anti-fraud roles and responsibilities in insurance companies 3.9 Anti-fraud roles and responsibilities in insurance companies 3.9.1 Board of Insurance company 3.9.2 Insurance company employees 3.9.3 Internal Audit Management 3.9.4 External Auditor	Section 9:

Curriculum Unit/Item		Chapter/Section
Fourth element	Rules and Procedures for Insurance Brokerage and Agency	Chapter Four
	Rules and Procedures for Insurance Brokerage and Agency Upon completing study of this section of the book, the examinee shall:	
1	Rules Governing Insurance Aggregation Activities 4.1 Rules Governing Insurance Aggregation Activities: 4.1.1 Definition of Insurance agent and broker	Section 1:
2	Rules Governing Insurance Aggregation Activities	Section 2:
3	Obligations of insurance broker towards insurance company	Section 3:
4	Obligations of an Agent Towards the Represented Insurance Company	Section 4:
5	Functions of insurance brokers and agents: 4.5.1 pre-sale Contact Client 4.5.2 Sale of Insurance products and services 4.5.3 Post-Sale Client Servicing	Section 5:
6	Insurance Aggregation Activities and Obligations: 4.6 Be familiar with Rules Governing Insurance Aggregation Activities and obligations 4.6.1 License Requirements for Insurance Aggregation Activities 4.6.2 Technical Requirements for Linking with Insurance Companies 4.6.3 Obligations of Insurance Aggregator and Insurance Company 4-6-4 Obligations of Insurance Aggregator	Section 6:

Curriculum Unit/Item		Chapter/Section
Fifth element	Outsourcing of Insurance and Reinsurance Companies and Insurance Service Providers	Chapter Five
	Outsourcing of Insurance and Reinsurance Companies and Insurance Service Providers Upon completing study of this section of the book, the examinee shall:	
1	Role of Compliance Department in dealing with service providers: 5.1 Owners and companies of Insurance Service Providers and the role of Compliance Department in dealing therewith 5.1.1 concept of Outsourcing: 5.1.2 Insurers and Insurance Service Providers: 5.1.3 Third Party: 5.1.4 Material Functions: 5.1.5 Material Functions:	Section 1:
2	Compliance Department Role	Section 2:
3	Overarching Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers: 5.3 Getting familiar with Overarching Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers 5.3.1 Overarching Rules of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers 5.3.2 Accountability 5.3.3 Obligations	Section 3:
4	Study of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers: 5.4 Study of Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers 5.4.1 Contract Wording 5.4.2 Policyholders' rights 5.4.3 Requirements for Material Outsourcing Arrangements 5.4.4 Requirements for Overseas Outsourcing Arrangements 5.4.5 Control and Monitoring	Section 4:

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