

Charting Changes in Saudi Arabian Insurance Industry

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Abstract

In the recent years Saudi Arabia has experienced rapid economic growth. The significant increase in crude oil prices in the seventies and early eighties enabled the Kingdom to experience a continuous upward trend in its oil revenue which has been utilized to build the country infrastructure and improve public services, especially in education and manpower development, health, and social services. The insurance industry also experienced recent growth, however, it was unable to develop at the same manner, in terms of product, quality of insurance, and efficiency in operation.

The main contribution of the paper was to understand the trend in the Saudi Arabian insurance industry and to look ahead and suggest what is needed to maintain the current momentum for an optimal expansion. We believe the lack of institutions to handle the regulatory constructs, operational details and the awareness of the public will be biggest obstacles to the growth. In our paper, we charted some of the details of these institutions juxtaposing against the Gulf Cooperating Countries on the one hand and the United States on the other.

I. Introduction

In the recent years Saudi Arabia has experienced rapid economic growth. The significant increase in crude oil prices in the seventies and early eighties enabled the Kingdom to experience a continuous upward trend in its oil revenue which has been utilized to build the country infrastructure and improve public services, especially in education and manpower development, health, and social services. The government has also taken the initiative to build the petrochemical and oil refining industry.

The growth in the private sector paralleled the public sector. These developments led to an increase in the complexity of the environment in which organizations and individuals operate. The businesses are becoming more aware of the need to manage risk, and they are understanding the importance of insurance as a risk management tool. The insurance industry, however, was unable to develop at the same manner, in terms of product, quality of insurance, and efficiency in operation. Assumption of risk is only one of the many functions normally carried out by insurance industry. Its role in helping organizations in identifying, evaluating, managing risk, and conducting safety research is still far from adequate in Saudi Arabia.

Compared with the insurance industry in the United States which directly employs more than 1.5 million employees, the Saudi insurance industry's role in employing a Saudi is very insignificant. Further, the insurance industry did not play a significant role in channeling savings

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into long-term investment which could partly be attributable to low retention capacity and high reinsurance rate. Another notable factor in Saudi insurance industry is the slow development of the self-employment occupations related to insurance such as insurance consultants, inspectors and loss appraisers, claims settlement and actuaries experts.

The purpose of this paper is two fold. First, we seek to understand the activities, size, government regulations of insurance, and the role the insurance industry as a financial intermediary. Second, we chart the required path for its optimal development in the Saudi Arabian economy. In section II we will provide a brief profile of Saudi insurance industry. The section III notes the impetus for growth in Saudi insurance industry while section IV presents some vital statistics. Section V provides some recent developments followed by section VI that indicates the inadequacy of such efforts for optimal expansion. Finally, the conclusion follows in section VII.

II. A Brief Profile of Saudi Insurance Industry

A. Structure

The Saudi insurance market experienced significant growth during 2003. The major structural change came in July, 2003 when the Insurance Law was issued to regulate insurance activity. The Ministry of Commerce and Industry deals with issuing licences for insurance and reinsurance companies while the Saudi Arabian Monetary Agency (SAMA) regulates the insurance market. The by-laws stipulate that insurance companies must offer at least 25% of their capital for public subscription. The minimum capital requirement is US\$26.6m (SR100m) for insurance firms and \$53.3 (SR200m) for those offering re-insurance. Existing insurance companies will have eight months to comply with the requirements of the law. At least 30% of the staff must be Saudi from day one, rising to 70% in five to eight years. The number of specialized insurance companies, agents, consultancy and insurance operation control stood at 104 at the end of 2003. According to the 2002 annual survey by SAMA, the subscriptions of the Saudi insurance market increased by 16%. The numbers of personnel in insurance activity was 38% Saudis and the rest from different nationalities. The largest share of insurance premiums was from motor vehicles insurance because of mandatory ruling. Medical insurance was the next.

At present, only the National Company for Co-operative Insurance (NCCI), a government run insurance company, operates on the Islamic takaful basis as required by the new law. Most of the other insurance firms are brokerages acting for companies located outside Saudi Arabia. The recent introduction of compulsory third-party motor insurance and compulsory medical insurance for foreigners is likely to result in rapid expansion of the Saudi market in the coming period. Foreign companies are free to invest in the insurance industry, following its removal from the "negative list" in February 2003.

The table below, extracted from a SAMA report on Saudi Insurance Market, provides a first glance at the new ownership structure and percentages for insurance companies.

Ownership Structure and Percentage for Insurance Companies

Type	Foreign Insurance Company (1)	Saudi Insurance Company (2)	Saudi Bank (3)	Saudi Investors* (4)	Foreign Investors** (5)	Minimum Public Offering (6)
(1) + (4) + (6)	25-49%			11-35%		40%
(2) + (4) + (6)		25-35%		25-35%		40%
(2) + (4) + (5) + (6)		30% Maximum		20% Maximum	10% Maximum	40%
(4) + (6)				60% Maximum		40%
(1) + (3) + (4) + (6)	30% Maximum		30% Maximum	15% Maximum		25%
(2) + (3) + (4) + (6)		30% Maximum	30% Maximum	15% Maximum		25%
(3) + (4) + (6)			30% Maximum	30% Maximum		40%

* Includes natural persons (with ownership ceiling of 2% for each person) and entities (with ownership ceiling of 5% for each entity) subject to the rules of related parties.

** Means companies that are established and registered outside the Kingdom (ownership percentage is determined according to the size and operation of the company)

B. Background on the Legal Environment of Saudi Insurance Market

The purpose of regulating and supervising the insurance industry is to protect the insureds who pay in advance in return for the promise by the insurer to pay when an insured peril occurs. This will require setting minimum solvency requirements for the insurer, setting rules on how to deal with disputes and interpret policy provisions and specifying the nature and general content of the insurance to assure that the policy holders will be dealt with fairly and reduce the incentive for the insured to cause the loss intentionally.

It was not until 2005 (2/6/1426) when the "Law on Supervision of Cooperative Insurance Companies" was enacted. Prior to this date there was a lack of legislation and absence of central regulatory authority to control, supervise, and regulate the practice of insurance in Saudi Arabia. As a result insurance companies entered and exited the Saudi market without restriction of any sort. There were no requirements for financial solvency, technical reserve, statutory reserve, and policy holders' protection rights. The Saudi Arabian Monetary Agency was authorized to oversee and supervise the insurance and the reinsurance industry and issue the insurance by-laws, the implementing regulations.

The Implementing Regulations for the practice of insurance in Saudi Arabia set rules with respect to registration, solvency, margins, and minimum paid-up capital for insurance establishments as well as insurance related occupation. Failure to maintain these minimum structural and other operating requirements might result in termination of the company business. The regulation set minimum entry requirements and specify circumstances under which the company will exit the insurance market either voluntarily or involuntarily. Three Saudi commercial banks were licensed to engage in the insurance business out of the 29 insurance companies listed on the SAMA web site that have met these minimum regulatory and financial

stability requirements. Saudi commercial banks possess wider branch network and client base than the local insurance companies. They also enjoy greater public confidence. These factors could give a competitive edge in distributing personal and commercial lines of insurance. However, life and private pension insurance, the most profitable products for the banks, are underdeveloped in Saudi Arabia. This is mainly due to the conservative religious attitudes of Saudis.

Even though the Implementing Regulation has already been issued by SAMA, we still observe many other insurance companies, brokers, and consultants not listed by SAMA operate in the Saudi market. The 1996 statistics by National Company for Cooperative Insurance (NCCI) reveal that the Saudi insurance market is served by about 109 insurance establishments, classified as follows:

• locally registered government owned (NCCI)	1
• wholly or partially owned by Saudi private capital and registered outside Saudi Arabia	50
• foreign owned but operating through Saudi agents	23
• insurance brokers and consultants	<u>35</u>
Total	109

While the new Implementing Regulations require the insurance companies to submit audited financial statements annually to SAMA, official or reliable statistics of market capitalization and market shares of insurers operating in Saudi Arabia do not exist yet because insurers were not yet required to publish their annual results.

In 1997 survey (Sami, 1999), the overall retention ratio was about 32%. Motor insurance had 85% retention by far the largest of all types of insurance. On the front of loss ratios, the survey points out that the aviation had the highest loss ratio of 121% followed by medical at 92%. The lowest loss ratio was for engineering at 24%.

III. Internal and External Impetus for Growth in Saudi Insurance Industry

A. Internal Impetus for Growth - Liberalization

Modern insurance dates back to the 14th century when the first marine insurance policy was introduced. The first property (fire) insurance policy was introduced in the 17th century in England. Insurance in Saudi Arabia is relatively new. Insurance market in its modern form did not develop until 1970, when foreign insurance companies, agents, and brokers opened branches to provide insurance coverage for the construction projects at the time of the economic boom. At a later time these institutions expanded their business to marine cargo, motor vehicles, and contract work.

As a result of the erosion of the oil prices in the early eighties, Saudi government has to take an enormous cut in its investment spending. Many projects have been postponed or cancelled, and many construction and trading firms have curtailed or liquidated their businesses. These developments have negatively impacted the insurance industry and led to fierce

competition between insurance institutions. It was not until 2004 when Saudi budget showed a surplus due to the size in oil revenue. The volatility of oil prices and resulting budgetary deficit compelled the Saudi government to press for a greater role to be played by the private sector in achieving the goal of economic diversification. In this regard the Saudi government has taken the following steps given below in chronological order.

1. In 1985, the Ministry of Finance and National Economy founded the Banking Dispute Committee to deal with loan disputes and to put an end to the refuge of bad debtor in the Sahriah (Islamic) court on the ground that the lending agreement is void. Interest is classified as usuary in Islam, and therefore, the Shariah prohibits the payment and receipt of interest.
2. Established higher Economic Commission in August 1999 headed by the King to sketch the country's overall economic policies and aimed at achieving rapid and sustainable economic growth.
3. Established General Investment Authority in April 2000 attracting foreign direct investments by promoting the comparative advantages that Saudi Arabia enjoys.
4. Established Supreme Commission for Tourism 2001, aimed at promoting the tourist industry.
5. It has undertaken a very aggressive privatization program. It has already opened telecommunication and insurance. There are plans to privatize Saudi Airlines, rail road, and to sell its ownership stake in many existing companies.
6. The Capital Market Law was promulgated in June 2003 which set up the Capital Market Authority. The goal was to further streamline the development of the capital market and related rules and regulations.
7. The Cooperative Insurance Company Control Law was promulgated in April 2004 and its implementing regulations (by-laws) was issued in 2005. This law authorizes Saudi Arabian Monetary Agency to regulate and to supervise technically the operations of insurance and re-insurance. Before the enactment of the insurance law, Saudi Arabia lacked any law governing the licensing and the conduct of insurance business. Insurance services were provided by the only licensed insurance company, the National Company for Cooperative Insurance (NCCI) and a host of foreign insurance companies, agents, and brokers. NCCI was established 21 years ago and was wholly owned by Saudi government entities. Currently 70% of NCCI is owned by Saudi shareholders and is the only insurance company listed in the Saudi stock exchange. Foreign insurance companies were either branches to insurance companies registered overseas or agents and brokers for foreign companies. The foreign insurance institutions were not licensed to provide insurance services by Saudi authority.

The new insurance law establishes a new legal framework for regulating the insurance industry. This law establishes rules governing financial solvency, technical reserve, statutory reserve, policy holders' rights, insurance company rights and that the insurance business must be conducted through a registered insurance company operating in cooperative manner and in compliance with principles of Islamic Shariah.

Insurance and reinsurance companies maybe incorporated by first obtaining a license from SAMA which requires each insurance company to satisfy the licensing requirements stipulated in the insurance law. The insurance law permits foreign direct investment up

to 49% of the capital of insurance company. Insurance and reinsurance companies must be incorporated as a Saudi joint-stock company and that the Saudi public must own at least 25% of the shares of the insurance company. Existing insurance institutions were permitted in June 2005 to continue their regular business for three years, during which they must either apply for and obtain a license to operate as insurance companies according to the insurance law or submit a plan to eventually liquidate their business within the three-year period.

The government is gradually opening up several sectors, the most recent is telecommunication, and insurance. Foreigners can now own land and set up businesses without a local partner. The corporate tax rate has been lowered from 45% in April 2000 to the current 20%. Gas sector, as well as downstream facilities, also was opened to foreigners. In December 2005 Saudi Arabia joined World Trade Organization (WTO) which requires Saudi government to open up further to foreigners.

Based on the Saudi Accession Agreement, banks and insurance companies are allowed to enter the Saudi market as direct branches or locally incorporated with up to 60% equity share. This represents a substantial increase from the current equity cap of 40% and 49% for banking and insurance respectively. Asset management and financial advisory services may be provided by banking or non-banking financial institutions. Foreign insurers are allowed to sell reinsurance and other insurance products for large customers even without incorporation in Saudi Arabia.

B. External Impetus for Growth - Need for Non Oil Sector to Take Larger Share of GDP

The oil sector traditionally constituted more than 50% of GDP in Saudi Arabia. In stock market the combined value of shares traded in banking, insurance and services sectors constitute only 22%. Notably, the insurance market capitalization stands at 3% of the the total market capitalization in the first quarter of 2005. This indicates that financial services industry has a lot of potential to grow. On the other hand, the recent mandate by President Bush to make the USA independent of Middle Eastern oil by 2025 brings forth the importance of searching for other sectors for growth in Saudi Arabia in particular. The insurance and banking industry is a natural candidate for such growth.

Let us now look at the data to figure out whether the insurance market is poised for growth given these changes in legal and global situations.

IV. Insurance Industry and Companies - Poised for Growth

In Table I, we see that the insurance premium as a percentage of GDP has remained fairly stable at about 0.5% in Saudi Arabia. This is the lowest of all countries – a startling number. Compared to this the Gulf Cooperating Countries (GCC)¹ constitutes about 1.3% which is also fairly low if we compare it to emerging countries. The USA figure stands at 12% in 2003. As we look at the dollar figure in Table II, we can see that in 2003 Saudi Arabia only spent \$44 per capita compared to \$223 for GCC countries and \$59 for emerging countries. The USA spends in excess of \$3600 per capita. The picture clearly emerges that despite attempts for liberalization, Saudi Arabia is much below where it needs to be in insurance market.

¹ The GCC countries are comprised of Saudi Arabia, Bahrain, Qatar, UAE, Oman and Kuwait

Table I. Trends in Insurance deepening

A. Insurance Penetration: Insurance Premium as percentage of GDP

	1998	2003
Saudi Arabia	0.6%	0.5%
GCC	0.9%	1.3%
Emerging Markets		3.8%
USA		12%

Table II. Trends in Insurance deepening

B. Insurance Density: per capita (in US dollars)

	1998	2003
Saudi Arabia	40	44
GCC	155	223
Emerging Markets		59
USA		3638

When we look at Table III for the retention ratio, things are looking better as it improved from 37% in 1998 to 55% in 2003. It has fared better than GCC countries where retention ratio has decreased from 45% to 41% largely because of 9/11 effect.

Table III. Retention Ratio as percentage of GDP

	1998	2003
Saudi Arabia	37%	55%
GCC	45%	41%

Table IVA shows the loss ratio for the most recent two years. As can be seen the loss ratio has decreased for comparable companies. Further, the profitability remained high, however, the classess of insurance enjoying the most profit varied from 2002 to 2003. In the latest ranking presented in Table IV B, the Motor class is ranked at the top. The non life insurance is enjoying the most of the growth as can be expected in Saudi Arabia because of awareness and negative stigma associated with insurance.

Table IV. Loss Ratio and Profitability

A. Loss Ratio as percentage

	2002	2003
Saudi Arabia	81%	69%

. B. Profitability of Classes by Ranks in 2002 -3

	2002	2003
1. Motor	9	1
2. Fire and Property	2	2
3. Marine Cargo	8	3
4. Engineering	4	4
5. Miscellaneous Accident	3	5
6. Medical	7	6
7. Aviation	5	7
8. Others	1	8
9. Life	6	9

Saudi Arabia has the largest number of insurance companies operating in the country compared to any other GCC country. Also between period 2002-3, the number of employees grew at 8% overall and 7% for Saudi nationals. The number of companies and composition has remained fairly stable. This is a good indication that competitiveness will prevail in the market when the market orientation is brought in by enforcing the regulations that are presented in this paper.

Table V. Trends in insurance deepening: numbers of insurance companies

	# of insurance companies	
Country	1998	2003
Saudi Arabia	69	75 (highest)
GCC	175	184

Given the above scenario, the potential for insurance growth in Saudi Arabia is phenomenal. In the next section let us list the factors that need to be improved in order for optimal expansion of the market.

V. Recent Developments in the Saudi Insurance Market

1. Mandatory Insurance

Recent events have changed the scope of the insurance market in Saudi Arabia. First, the introduction of compulsory third party auto liability insurance policy. In October 2001 the Council of Ministers issued a directive that all individuals operating vehicles in Saudi Arabia must carry third party auto liability coverage. The directive was implemented near the end of 2002. Prior to this date residence are not legally required to have third party coverage. The individuals were not holding insurance not only due to absence of legal requirement prior to 2002. It was exacerbated by a general lack of awareness of the importance of insurance and the fact that majority of people have negative stigma about insurance due to their religious beliefs. As a result many who are involved in an auto accident were unable to pay the claims. This has led to over utilization of the Shariah court and the jails. Saudi government concluded that requiring automobile drivers to carry third party coverage will mitigate this problem. Once the directive was implemented gross auto insurance premium increased from \$203m (SR762 million) in 2002 to \$310 (SR1,161 million) in 2003. It estimated that the auto insurance premium will reach \$1.34b (SR5 billion) by 2009.

Second is the introduction of compulsory medical insurance for expatriate employees starting June 2005. The law calling for mandatory medical insurance for the estimated 7 million expatriates working in Saudi Arabia was passed in August 1999. However, the government was unable to implement the law because of the lack of regulations governing the insurance sector. Once the insurance law has been passed in April 2004, efforts have been directed toward implementing mandatory medical insurance which has been placed into practice in three phases. The first phase started June 2005 and required each company with a workforce of 500 or more expatriates to provide them with medical insurance. The second phase started January 2006, involved firms employing 100-500 expatriate employees. The third phase will apply to firms with an expatriate workforce of up to 100, and will start in June 2006. It is estimated that the current medical insurance premium is approximately \$.26b (SR1 billion) and is estimated to reach \$1.68b (SR6.3 billion) at the end of the third phase. This initiative was taken in order to alleviate the financial burden of the government which has suffered after years of pressing budgetary deficits.

Third is the introduction of mandatory medical malpractice insurance in January 2006. In December 2005, the Ministerial Council issued a directive for compulsory medical malpractice insurance. Over the past years there were more than 880 medical malpractice related deaths at an average of 88 deaths per year. It is estimated that medical malpractice insurance premium will reach \$27 million as reported Al- Eqtisadiyah, December 2005 (2/12/1426).

2. Moral Hazards and Fraud

Moral hazards involve dishonesty on the part of the insured and involve conditions that encourage insureds to cause losses. In Saudi Arabia third party auto liability insurance coverage is provided on the license, and not on the vehicle as in the U.S.A. Such a policy provides incentives to some insureds to claim that they are the drivers when a friend is involved in an accident. Fraudulent claims expand even to the point where some insured intentionally involve themselves in accidents. Further problems are encountered due to the lack of traffic courts

leaving the responsibility in determining degree of faulty to the traffic police, some of which are not trustworthy. Lack of claim (loss) adjustment institution has further complicated the problem. Workshops and used car dealers have been given the responsibility of loss valuation for a nominal fee. Loss valuation is, more or less, arbitrary and does not follow unified standards which has led to variation in loss valuation even in similar cases. This situation has led to frustration and, in some cases, disputes, which has increased the cost to the plaintiffs. Such a policy covers only bodily injury and property damages, and no coverage is provided for lost income. General damages, as well as punitive damages, are not covered.

Records of driving and claim experience are unavailable which have forced insurance companies to determine the premium based on age only. Over time, once the insurance company develops their data, they will reflect each insured claim experience in the premium determination. Using age only as an underwriting factor has led to adverse selection.

Prior to the enactment of the Saudi insurance law in April 2004 and its by-laws in 2005, there were no requirements for financial solvency, technical reserve, statutory reserve, entry, and exit, or rules concerning the conduct of insurance business. As a result the insurance industry included many companies that lack minimum solvency and capital adequacy requirements. Since third party auto-liability insurance became mandatory by the end of 2002, and due to the absence of a substandard market, many of the insureds have bought coverage from financially weak insurers attracted by relatively very low prices, resulting to the accumulation of large amounts of unpaid claims.

These fraudulent activities are not peculiar to motor insurance. Fraudulent activities are widespread with medical insurance. It is not unusual for some health care providers to be complacent with the insured in their fraudulent or shirking activities. A survey of 95 medical care provider respondents in Saudi Arabia made by 2005 NCCI, revealed the following:

1. 23% of medical care providers do not collect any amount from the insured based on the coinsurance provision which increases the incentives for the insured to frequently seek health care services and lead to over utilization of health care facilities.
2. 40% of health care providers provide uncovered services and record it in lieu of covered services.
3. 50% of the health care providers failed to authenticate the insured identification. This has led to medical services being provided for non-beneficiaries.

Fraudulent activities also included billing for non-performed services, billing for different services, billing for non-necessary services, altering date of the service, and increasing the cost of the service.

To deal with these fraudulent activities it is recommended that insurance companies should void involved policies, and that the insured and the medical care provider should be blacklisted. Legal recourse should also be taken. Such widespread prevalence of these fraudulent activities lead to rise in the cost of claims and eventually higher insurance premiums to whole insured as reported in Al-Eqtisadiyah in November 2005 (2/11/1426H).

VI. Policy Recommendations to Promote the Potential of Expansion

The recent developments as spelled out above are positive steps forward, yet they are far from adequate. The data presented above reveal that while Saudi insurance market is the largest insurance market in the Arab world, it is quite insignificant in terms of gross premium income, premium density and penetration. The latest regulatory and liberalization reforms are expected to increase premium density to \$200 approximately by 2007, and improve the premium share of the GDP. However, more detailed efforts are required for the insurance industry to reach its full potential. Also, in its endeavor to diversify away from the oil sector, Saudi Arabia places greater importance in the growth and efficient functioning of the financial service industry. The role of insurance as an intermediary and risk management tool cannot be underestimated in a developing economy with such strategic intention. With the growth of business activities and the rise in the complexity of the environment in which businesses operate, demand for insurance increases. However, the following regulatory and institutional reforms are needed to further streamline the development of the insurance industry and chart the optimal path for expansion.

- i. *Develop residual markets.* Since third party auto liability insurance, medical insurance and medical malpractice insurance are mandatory, arrangements have to be made to provide coverage for applicants that do not meet normal underwriting standards. Saudi insurance law does not compel private insurers to offer coverage for each applicant, however, they are required to be fair and provide justification for policy cancellation (if the policy is cancellable) and if an insured is denied coverage. Moreover, since the law allows an insurer to develop insurance pools to handle substandard risks, insurers' cooperations is deemed necessary for the development of the residual markets.
- ii. *Develop insurance guarantee fund.* While the Saudi insurance regulation places restriction on insurer's capital and assets, and empowers SAMA to monitor insurers' insolvency risk, the law is silent on how to protect the insured if the insurer failed. It is highly recommended that a countrywide guarantee fund be established to pay all or part of the claims that exceed the assets of an insolvent insurer.
- iii. *Develop solvency ratings.* Insurance companies are rated based on their financial strength, efficiency of their operations and management. Empirical research reveals that solvency rating is helpful in predicting insurer solvency. Insurers with low ratings are more likely to become insolvent than those with a higher rating. Solvency rating of insurance companies is provided by a number of rating agencies which include A. M. Best Company, Moody's, and Standard and Poors and is used by risk managers, independent agents and brokers when selecting an insurer. SAMA should demand that the insurance companies be rated by an internationally recognized rating agency which will subject the insurers to market discipline.
- iv. *Develop rates making under asymmetric information.* The accuracy of actuaries prediction increases with the number of exposures upon which they are based. Currently the Saudi insurance market lacks any mechanism for cooperation among insured with respect to pricing. The inability of insurer to estimate expected claims accurately to all potential insured due to insufficient information will lead to adverse selection. These problems could be mitigated if the insurance

companies furnish SAMA with their loss statistics which will be made available to all insured for the purpose of rates making. The Ministry of Health should also be charged with the construction of mortality tables.

- v. *Develop reformed judicial system.* The Saudi insurance regulations require insurers to issue policies in accordance with the standards set forth by SAMA which stipulate, among other things that the insured must possess insurable interest in the insured property, and that the purpose of insurance is to indemnify the insured. The law is silent on how to interpret the policy in case of disputes and on the basis of valuation. Litigation in Saudi (shariah) courts is costly, time consuming and the outcome is very uncertain, which may discourage insured from filing law suits. It is very unfortunate that the Saudi courts lack knowledgeable judges in the field of insurance. Reforming the judicial system is very essential. While regulations are required to provide customers with needed protection, enforcing the regulations is as important.
- vi. *Develop ways to decrease moral hazards.* Moral hazards could be reduced in the field of auto-liability insurance, if the coverage is placed on the car rather than on the driver. In the field of medical insurance it would be mitigated, if the insured is made aware at the time of the policy issue that concealment, misrepresentation, and fraud will void the policy and that legal recourse will be pursued for fraudulent activities. Furthermore, insurers need to cooperate in exchanging information for the purpose of implementing "other insurance provisions".
- vii. *Develop awareness, and eradicate insurance negative stigma.* Insurance is relatively new in Saudi Arabia. While corporate insurance buyers are well aware of the importance of insurance as a risk management tool, most individuals lack basic knowledge of insurance and consider it a taboo violating Islamic teachings. This view is enhanced since most Saudi clergies hold much negative stigma about insurance. Efforts must be initiated to increase public awareness of the importance of safety management in general and insurance in particular via media and educational channels.
- viii. *Develop professionalism.* Increase personal professionalism through specialized college programs in insurance and insurance related discipline.

VII. Concluding Remarks

The main contribution of the paper was to clarify and understand the trend in the Saudi Arabian insurance industry and to look ahead and suggest what is needed to maintain the current momentum for an optimal expansion. We note here the need of the moment - institutionalization. The need for reform to institutionalize the growth in insurance market is the key variable that we believe will keep the growth of the insurance industry uninterrupted. The institutions are needed to monitor capital, reserves, solvency margin of all insurers to protect the interests of the clients, public and the shareholders. There needs to be institutions that will promote cooperation between brokers and insurance companies with respect to operations. Most importantly, there is the need for institutions to educate the public on the benefits and principles of insurance and how it does not conflict with the dictates of Islam. The insurance continues to carry social stigma as it is understood to be at odds with Islam.

In summary, the lack of institutions to handle the regulatory constructs, operational details and the awareness of the public will be biggest obstacles to the growth. In our paper, we charted some of the details of these institutions comparing against the development of Gulf Cooperating Countries on the one hand and the United States on the other.

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