

The Cooperative Insurance in Saudi Arabia: A Nucleus to health Reform Policy

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Abstract. In order to fulfill the country's health sector developmental objectives, the Kingdom of Saudi Arabia has endeavored to reorganize and improve its health care systems. One area of health sector that has undergone profound change and significant progress is health insurance. A comprehensive health insurance programs - based on the Islamic concepts- have been created and implemented through a new government council for cooperative insurance. This paper discusses the Saudi health insurance act, its Islamic philosophy, implementations of its programs and a brief summary of its concrete accomplishments. A detailed discussion is given for the many challenges and difficulties faced the implementation of this act. The Saudi cooperative health insurance innovative approach to health care development, can serve as a model program for developing countries undergoing rapid health sector development. Evaluation of its effectiveness in providing improved health care in the kingdom of Saudi Arabia may also offer an example for other Arab and Islamic countries with similar health care needs.

Keywords: Islamic Cooperative Insurance (Takaful), Saudi health systems, Health Insurance in developing countries

1. Introduction

The overall development boom witnessed by the Kingdom of Saudi Arabia over the past four decades has led to a steady growth of the population of the Kingdom of Saudi Arabia (3.1% per annum), one of the highest in the world. In addition, the country infrastructure development required a large number of foreign expatriate workers. This brought to the country more than seven million workers. In view of the existence of this population growth coupled with the huge workforce expansion, the demand on health services soared and associated with a considerable rise in the cost of health care. This has reflected on the significant of the health services and encumbered public hospitals from providing satisfactory health care.

Health insurance system has been anticipated as a strategic solution to this problem and hopefully expected to realize many objectives of health care sector development. [1] The start of the health insurance reform was initiated on 1999, when the council of Ministers passed a resolution for the establishment of cooperative health insurance system aiming at the provision of health care and its organization to cover all the non – Saudi residents working in the private sector and their families. Later on, the Cooperative Health Insurance act was issued by a Royal Decree no: M /10 on August 1999.

1.1. Methodology of the Paper

In this paper, we present a summary of the progress made to implement health insurance system in the kingdom. A detailed discussion is given for the many challenges and difficulties faced the implementation of this act. An exploratory approach is used as a primary research method to determine the status of the cooperative health insurance system in the kingdom of Saudi Arabia. Our study is mainly based on the rich literature of Muslim scholars on Cooperative insurances, the Saudi insurance act contents, and on official cooperative health insurance council reports, statistics and documents.

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1.2. Related Works and Research Significances

Prior work on this subject has focused on assessing the application of Islamic principles into insurance and how this type of insurance arrangement works.[2-4] Several research studies also investigated the growth of “Takaful” insurance industry and its availability and operation on various countries, especially those with a significant Muslim population. [5-7]. Studies on the level of knowledge and understanding among Muslims towards the Takaful concepts are presented in reference [8, 9]. The development of Saudi health sector based on Takaful insurance is presented in several official reports[1, 10-13] While these published works are valuable, it is also fundamentally important for researchers to continuously monitor and document the health care progress and improvement surrounding using new insurance approaches. With lack of sufficient research studies on Saudi health community, this work seeks to address this gap via presenting a descriptive study of the current status of cooperative insurance in the kingdom health sector. As few studies have discussed health insurance in Saudi Arabia, the work presented in this paper, may therefore be the base for other studies to come. The description of applications and progress of cooperative insurance in Saudi health sectors is also a valuable initial step towards evaluation of their effectiveness in providing improved health care in the kingdom of Saudi Arabia.

1.3. Paper Organization

The paper is organized as follows: The subject of building the insurance industry on the Islamic principle and Shariah (Islamic law) is discussed in the next section. This section reviews the concepts and principles of Islamic cooperative insurance which is proposed as an alternative to conventional insurance. In section three, the trends and history of Cooperative health insurance is covered. Section four describes the Cooperative Health Insurance Act and the role of the council of cooperative health insurance that has been formed to implement the act in the Saudi society. In section five, we review the challenges, progress, and achievements made so far in applying the Takaful system in the kingdom. Complications that faced the growth of the health insurance industry are discussed in section six. Finally, the conclusion sections summarize the result of this study.

2. Islamic Cooperative Insurance (Takaful)

Muslim jurists generally agree that Islamic insurance Takaful is based on principles of mutuality and cooperation. These necessities shared responsibility, joint indemnity, common interest and solidarity, and freedom from Islamic forbidden elements such as gambling, uncertainty and interest. As an insurance business, Takaful is perceived as a cooperative insurance, where members contribute a certain sum of premiums money to a common fund with not profits purpose but to uphold the principle of “*bear ye one another’s burden.*” Based on this, the main principles of Takaful insurance are as follows: [6, 14]

- Every policyholder pays his premiums to a common Takaful fund
- Losses are shared and liabilities spread among participants as any participant suffering illness would receive a certain sum of money or financial benefit from Takaful fund as defined in the insurance pact.
- All transactions and commercial activity of Takaful must be in accordance with the Islamic principles and in compliance with the Shariah (Islamic Laws).
- Uncertainty is minimized in respect of subscription and compensation by implementing the concept of *Tabarru* (denotation). Thus each participant shall agree to give certain portion of his Takaful instalments as “a donation”.
- An insurance company is established as manager of the Takaful Operations and is allowed to charge a management fee for Takaful transactions.
- The Takaful Fund, consisting of the premiums paid as donations, is further invested by the Company in compliance with the Shariah law with no element of interest (Riba) involved. The investment profit will be shared on agreed ratio. This surplus is normally distributed on expiry of each insured’s insurance policy.
- If the participants premiums and investment are insufficient to meet these adjustments, those affected insured could be assessed for additional contributions.

The above key issues reflect the basic differences between Takaful and conventional insurance. [15]

3. Trends and History of Takaful Health Insurance

Takaful, or Islamic insurance concepts are based on the principles of TA-AWUN (mutual assistance and cooperation) and *Tabarru* (Voluntarily) origin. These can be traced back to Islamic guidance revealed in the holy Quran fourteen centuries ago. The development of Islamic insurance (Takaful) in recent times was first initiated in Sudan in 1979 and Malaysia in 1984[16]. The practice was given a strong support by the 1985 Fiqh (Jurisprudence) Complex ruling declaring that conventional commercial insurance is not allowed islamically and that the application of insurance business should be based on the cooperative principles. Since then, the Takaful industry operations, expanded very rapidly in many countries throughout the world. Malaysia has been the leading country for Takaful progress through the introduction of several dedicated Takaful regulations allowing the cooperative insurance industry to have a high growth rate in that country [17]. This approach was followed by other countries primarily in Islamic countries and countries with a large Muslim community including: Indonesia, Brunei, Singapore in the Far East and Saudi Arabia, Bahrain, Iran, Qatar in the Middle East. Recently, takful has also been introduced in UAE, Kuwait, Egypt, Bangladesh and in non-Islamic countries such as Sri Lanka, Belgium, US and Canada. Main global presence of takful in the world is mainly in Saudi Arabia (27%) Malaysia (34%), and Indonesia, Bahrain and UAE (5%) [7, 15, 16, 18]. The growth of number of Takaful companies reached 26% per year for the period 2006-2010. In this regard, it is worth noting that Takaful contribution reached US\$2.2 billion and by 2015, and it is estimated that Takaful contribution could approach US\$11 billion, with a growth rate of roughly 11-15% per year [7, 15]. The estimate for global Takaful assets is about 15\$ billion by 2015. [15] This shows clearly that there is a tremendous opening for Takaful to develop worldwide, and with more introduction of Takaful regulations and investments, Takaful industry is expected to become a healthy and growing industry and strongly competes with the conventional insurance business.

4. Saudi Cooperative Health Insurance Act and Laws

Insurance in the Kingdom of Saudi Arabia was first regulated by the provisions of the articles of incorporation of a national company for cooperative insurance issued by Royal Decree No (M/5) on 1985. This laid the base to start insurance industry by insurance companies registered in the Kingdom and operating in accordance with the practice of cooperative insurance and not inconsistent with the provisions of Shariah. In 1999, the Cooperative Health Insurance Act was issued by a Royal Decree to launch a new health insurance program, aimed at covering ultimately the whole Saudi and non Saudi population. This new program is based on 'Takaful', or Islamic insurance concepts. The Cooperative Health Insurance act consists of nineteen articles and aims to first regulate the provision of health care for non-Saudi residents in the kingdom, and later on, after specified time phases to be applied to Saudi Citizens. [13] The act made the health insurance compulsory, with anyone sponsoring a non- Saudi resident shall be obliged to participate in the cooperative health insurance for the benefit of the resident and by attachment of the residence permit issuance and renewal to fulfilling a cooperative health insurance policy. The Cooperative Health Insurance act also established the Cooperative Council for Health Insurance (CCHI) to supervise the implementation of the cooperative health insurance act. The main tasks of the CCHI include: the preparation of the act executive bylaws, certification of the cooperative insurance companies, accreditation of "private & public" health care providers centres, and the definition of the cooperative insurance financial regulation and fees. [19] The act also defined a health insurance policy that covers the basic health services. These services do not however prejudice the requirements of the social insurance regulations nor with health services offered by private companies, institutions and individuals to their employees in excess of those provided by this act.

Following the promulgation of the cooperative insurance act, the rules of implementation of the cooperative health insurance system and the details of cooperative health insurance policy was issued by Minister of Health Resolution No. 460/23/DH on June 2002. [20] On July 2003, a Royal Decree No M/32 approved the control law of cooperative insurance companies. This law complements the Cooperative Health Insurance Act and aims towards controlling insurance and re-insurance activities and to regulate and approve rules for cooperative insurance companies' establishment and licensing in the kingdom. The Saudi Arabian Monetary Agency (SAMA) was assigned the power of technically supervising the implementation of the insurance control law. SAMA main task is to guarantee that insurance companies satisfy the conditions and

the rules applicable in this respect [21]. On 10/2002 the council of Ministers passed a resolution for the enforcement of the Cooperative Health Insurance Act on Saudi citizens working with companies, private establishments or individuals. Finally, On May 2009, based on CCHI resolution, the executive bylaws of the cooperative insurance act and the terms of a unified standard policy was declared in a ministerial decision by the minister of health [22].

5. Challenges and Achievements

In this section, we are interested in reviewing the application of this new Islamic insurance scheme and what are the factors that contributed to its success or failure. In the positive side, as a result of health insurance act, since 2007, health insurance became the largest line of insurance business. At that year it accounted for 36% of total gross written premium (GWP) and 43% of total Net Written Premiums (NWP) in 2007 [19, 23]. By early 2011, and after five years from the date of health insurance implementation on 15/07/2006, there are 8.3 million health insured individuals, 2,147 Health Care Providers accredited, and 26 Health Insurance companies certified [19,23]. Recent economy survey into the Saudi insurance sector revealed that the sector will create between 35,000 to 40,000 job opportunities over the coming decade. [19, 23]. This survey results also revealed that, the sector itself will be worth US\$18 Billion by 2016. [19]

The most drawbacks of the kingdom experience with insurance solutions are quite similar to the experience of developed countries that have preceded the kingdom in implementing commercial health insurance. Continuous increase of health care cost due to the large demand for health care encouraged by the insurance sector and the relatively small number of certified insurance companies. The prices of various health services have continuous rises (5-10%) yearly in the value of insurance premiums depending on the types of services covered [19]. Other drawbacks is lack of compliance with the Shariah laws by many insurance companies, due to the absence of regulatory bodies and accurate information data and transparency of the cooperative insurance practice, which resulted numerous disputes, fraud and abuse of insurance policies by all parties involved.

6. Conclusion

The Kingdom's experiment with health insurance is relatively new and full of challenges. Takaful health insurance in Saudi society contributed relatively moderate positive impact on certain sectors of Saudi economy, namely insurance industry, private health care business and job market. However, several negative fallbacks also occurred which call for reconsidering other additional solutions for funding health care services

Speaking at the symposium entitled "Health Insurance Conference – Options & Prospects" organized by the Ministry of Health on 2011, the Saudi Minister of Health pointed out that the main aim of applying cooperative health insurance in the Saudi kingdom is to improve and develop the health sector according to the sound principles of Islamic religion and culture without burdening the citizens, as is the case in many other countries. He also stated that there should be more efforts to identify the concept, the purposes and the consequences of insurance, to differentiate between commercial health insurance and cooperative health insurance, and to know that the concept of insurance is not necessarily associated with the privatization of the health sector. The experience of developed countries demonstrated clearly that the implementation of commercial health insurance and the privatization of the health sector, led to increasing costs of healthcare" [24].

In our opinion, the relatively short experiences of the Saudi health sector demonstrated the strong need to a comprehensive public health insurance coverage. With the respect to Takaful insurance sector, our opinions is that the application of cooperative health insurance noble principles can assist in reducing health care cost if this sector is re-structured and regulated.

7. References

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