

# Saudi Arabian Monetary Agency

Head Office

General Department of Insurance Control

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Attachments: Appendix 1,3 and Q&A

Circular

Chief Executive Officer

## **Subject: Medical Expenses Insurance - Pricing & Underwriting Instructions 2018**

This Circular has been issued as an update and fully replacement to the Medical Expenses Insurance - Actuarial Pricing 2017 circular number (122) dated 14/08/2017 issued by SAMA.

The technical instructions for Actuarial Pricing Reports are also included within SAMA's Actuarial Work Regulations (Section I, Article 30), and this Circular should be read in conjunction with Actuarial Work Regulation for insurance and/or reinsurance companies.

Please note an insurance company must never provide a quotation without obtaining adequate underwriting information, including claims experience where the policy is experience-rated, on which to scientifically determine the premium rates appropriate for the policy terms & conditions offered. It should be noted that this applies to all insurance policies of all classes of Medical Expense Insurance.

### **1. Submission Requirements**

- a. Insurance companies must submit the following to SAMA:
  - i. The Actuarial Pricing Report, based on data not older than 3 months prior to the report submission date, covering all Medical Expenses Insurance classes.
  - ii. Actuarial Pricing tool for experience-rated groups in MS Excel.
  - iii. Premium rates, benefit structure, provider network, credibility approach using the Medical Pricing Template attached at Appendix 1.

Underwriting Manuals shall be submitted no later than 60 days after submission of Actuarial Pricing Report.

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## 2. Pricing Considerations

### 2.1 Compliance with Article 46 of the Implementing Regulation – Fair, Reasonable & Adequate

- a. It should be noted that, the Appointed Actuary must recommend premium rates in compliance with Article 46 of the Implementing Regulations. In particular, there shall be no cross-subsidies between the rating factors, between the benefit classes, or between Individual & Group risks.

### 2.2 Mandatory Loading Requirements

- a. The Appointed Actuary is required to include the following loadings within the gross premium rates:
  - 1) An **Expense Loading** covering *all* of the Company's expenses, excluding commissions, both for policyholders and shareholders.
  - 2) A **Commission Loading** covering any direct payments made in respect of the acquisition of a policy, whether to intermediaries or to internal staff.
  - 3) A **Profit Loading** that must be explicitly approved by the Board of Directors of the Company.
  - 4) A **Contingency Loading**.

Detailed requirements for the calculation of these loadings are shown in Appendix 2.

## 3 Underwriting

### 3.1 Use of Past Experience

- a. Insurance companies must comply with the following instructions when using the past claims experience for pricing of Group Medical Expenses Insurance policies:
  - i. Apply an experience rating approach for group risks, and must provide a fully justified credibility formula, blending the book rates with the experience rate, recommended and signed off by the Company's

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Appointed Actuary.

- ii. A form or Excel spreadsheet shall be produced which ensures that the pricing mechanism adopted complies with the credibility formula that is recommended by the Company's Appointed Actuary. A copy of the blank form or Excel spreadsheet must be provided to SAMA along with the Actuarial Pricing Report.
  - iii. The Appointed Actuary's Pricing Report shall specify the size of schemes for which this blended pricing approach must be adopted. It must define the size of smaller schemes where book rates shall be used.
- b. The Insurance Company may request that its Appointed Actuary assist with quotations for a particular scheme if it considers that there are reasons why the scheme falls outside the standard pricing process. All such specific quotations must be fully documented, be auditable, and be made available to SAMA on request. The Appointed Actuary should ensure that these specific quotations indeed fall outside the standard pricing process before providing his recommendation.
  - c. The Appointed Actuary is required to specify in his pricing report the range of medical providers discounts that companies can adopt in their pricing based on discounts received on the existing portfolio. Any expected changes to the current arrangement with the Medical Providers should also be considered.
  - d. For each premium quotation, Companies should use the discounts that they expect to receive from the Medical Service Providers relevant for that quotation. The underwriter's justification for the discount used should be fully documented, and provided to the internal control functions and, upon request, to SAMA.

## 3.2 Claims Experience Forms (Group)

- a. SAMA has updated the claims experience forms, designed to facilitate exchange of claims experience information between insurance companies. The updated forms are attached as Appendix 3. All claim amounts shall be shown both before and after including Value Added Tax (VAT). Historical claims data however should not be restated to include VAT.
- b. An insurance company must provide a duly filled claims experience form, accurate and complete in all respects, within fifteen (15) calendar days of receiving the request.



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- c. The Claims Experience Form provided by SAMA contains detailed instructions on filling those forms. The Company must ensure strict adherence to those instructions.

### 3.3 Accuracy of Claims Experience Forms

- a. In order to ensure accuracy of claims experience forms provided by the Insurance Company to the policyholder, each insurance company must adhere to the following instructions:
  - i. The Company's hierarchy for signing off on the claims experience form should be clearly documented and approved by the Company's management.
  - ii. The Internal Audit function must carry out a quarterly assessment of the accuracy of the Claims Experience Form provided by the Company to policyholders. The findings of the Internal Audit must be properly documented and submitted to the Audit Committee and to the Company's management.
  - iii. SAMA will perform spot-checks to assess the accuracy of Claims Experience Forms provided by the Company to its policyholders. During these visits, the above findings of the Internal Audit must be made available to SAMA's Inspection Team.
  - iv. SAMA expects that the Company will introduce measures to automate the completion of Claims Experience Forms in order to reduce the risk of errors and omissions.

### 3.4 Discretionary reductions in premium

- a. If the Company decides to charge rates different from those recommended by the Appointed Actuary in his pricing report, the rationale for the rates charged, along with due consideration for Article 46 of Implementing Regulations, must be fully documented by the Company.
- b. The Insurance Company's hierarchy for authority to reduce premium rates must be fully documented in the "Underwriting Authority Statement" included in the Underwriting Manual. This Underwriting Authority Statement applies only after it has been approved by the Board of Directors.
- c. SAMA will require each insurance company to submit a '**Pricing Adequacy Report**' at least twice every year. The purpose of the report will be to

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compare the recommended actuarial prices against the price at which the business was actually underwritten. The report will be required at a segment level as well as at the overall portfolio level.

### 3.5 Premium Rate Guarantees

- a. It is not permitted for any Insurance Company to enter into any arrangement with any insured for a period in excess of one year for medical expenses insurance with rates guaranteed for more than one year. Policyholders can choose to renew their annual policy with the same insurance company, however this must be on terms negotiated and agreed at renewal.
- b. It should be noted that use of a prescribed formula for renewals, even if it takes into account the loss experience for the first year, is not acceptable. Full allowance for current inflation and future trends expectations must be made for all quotations at the time of the renewal.
- c. A single exception to the above is made for Medical Expenses Insurance for Visitors on Non-Hajj/Umrah visit visas where policies of up to a 2-year term may be issued.

### 3.6 Insurance Companies other than leading a medical policy

Any Insurer participating in a panel of insurers, or following a lead co-insurer must ensure that they obtain full exposure and claims data to underwrite the policy fully. It is not permitted to place full reliance on a lead insurer.

## 4 Reporting

### 4.1 Reporting by the Appointed Actuary

- a. For submission to SAMA, the pricing report must be prepared by the Insurance Company's Appointed Actuary.
- b. The Appointed Actuary is responsible to ensure that a comprehensive report is provided to SAMA, so as to minimize the extent of required follow-up queries from SAMA. Any feedback provided by SAMA on previous pricing reports should be considered when preparing the new pricing report.

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- c. All reports shall clearly summarize and compare the Company's current premium rates (including loadings and discounts) and the new premium rates (including loadings and discounts).

### 4.2 Reporting on Data Quality

- a. The Appointed Actuary must validate that the data provided by the Company to determine the premium rates is up-to-date, complete and accurate.
- b. The Appointed Actuary should identify and document all material limitations of the data used in pricing.
- c. In particular, the Appointed Actuary should clearly flag those historical data issues which were identified by the Appointed Actuary in his last report submission to SAMA and are yet to be addressed by the Company.

### 4.3 Reporting on revision to Actuarial Pricing Report

- a. Subsequent to the submission of the full Actuarial Pricing Report mentioned above, SAMA may require the Insurance Company to submit another update if the circumstances require to do so.
- b. In respect of the circumstances listed below, the Insurance Company shall provide an addendum to SAMA from the Appointed Actuary:
  - a. Material revisions to credibility formula
  - b. Material changes to expense and other loadings
  - c. Material changes to premium rates for a single product or class of policyholders
  - d. Introduction of a new rating factor
  - e. Material changes to the Provider Network including any material changes in existing provider contractual terms.
  - f. Other material changes to the pricing basis that the Appointed Actuary recommends.
- c. In other circumstances, the Insurance Company shall notify SAMA of the intended changes, in which case SAMA will decide whether the Insurance Company is required to submit an addendum prepared by its Appointed Actuary.

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- d. If the Company makes a material alteration in its reinsurance arrangements for Medical Expenses Insurance, then it must consult with its Appointed Actuary to determine whether the recommended loadings in the premium rates remain adequate, and whether a change to the premium rates is necessary.

## 4.4 Summary Report for Board of Directors

- a. The Appointed Actuary must prepare a short summary document highlighting his key findings for each Actuarial Pricing Report. This shall be no more than five (5) pages long, and must be submitted to the Board of Directors of the Company as a Board paper within five working days of the Appointed Actuary's submission.
- b. SAMA requires that the Appointed Actuary attend Board Meetings to present his Board Pricing papers. The Company must provide minutes of the relevant Board meetings to SAMA, and copies of the Actuary's Board papers within ten business days of the meeting.

## 4.5 Use of Alternative Actuarial Services

For its internal decision-making purposes on the final selling price (refer to Section 3.4 – Discretionary reduction in premium), it is at the Company's discretion to obtain an 'additional' pricing report from another actuary as an alternative view on the actuarial premium rates. Currently, there are no reporting requirements in this regard; SAMA will consider requirements for reporting in this regard depending upon the emerging market practice.

## 5 Contents of the Underwriting Manual

- a. Company's Underwriting Manual must contain sufficient information so that an external party can follow any quotation produced by an Insurance Company for a risk in that Class of Insurance.
- b. Underwriting Manuals must:
  - be consistent with the pricing reports.
  - be comprehensive and cover all risks.
  - fully describe the quotation process.

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- include the Underwriting Authority Statement, fully described.
  - be consistent with reinsurance arrangements.
  - be consistent with Council of Cooperative Health Insurance (CCHI) requirements.
  - be consistent with Third Party Administrator (TPA) agreements, where applicable.
- c. The Underwriting Manual shall be signed off by the Chief Underwriter or Chief Technical Officer for Medical Expense Insurance class.
- d. The Risk Manager shall also sign off the Underwriting Manual (including the Underwriting Authority Statement) from the process perspective.
- e. The Appointed Actuary must review the Underwriting Manual for technical accuracy and consistency with the pricing basis.

## 6 COMPLIANCE

### 6.1 Compliance and Record Keeping

- a. A copy of these instructions must be passed to the Company's Board of Directors, Audit Committee, Internal Auditors, Risk Management officers, Compliance Officer, Appointed Actuary and External Auditors.
- b. The Compliance function must report to SAMA any material lack of compliance with SAMA's instructions at least on an annual basis. This shall also consider the reports of the Internal Audit function and the Risk Management function, and shall include an action plan for addressing the key issues identified.
- c. The Internal Audit function must carry out a continuous audit, at least on a quarterly basis, of the Underwriting function to assess compliance with the Company's internal procedures and guidelines as defined in the Underwriting Manual submitted to SAMA.
- d. The Risk Management function must carry out a quarterly assessment of the underwriting risks, and recommend improvements to processes, and address



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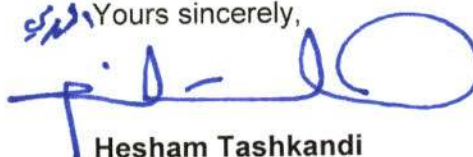
any other weaknesses that should be improved such as any need for additional training of underwriting staff.

- e. The Internal Control functions (internal audit, risk management, and compliance functions) must provide the Risk Committee and/or Audit Committee (as per the applicable reporting lines) with a report on their findings and suggested corrective actions on a quarterly basis. Moreover, on a quarterly basis the compliance function must provide SAMA with a copy of the minutes of the Audit Committee meeting in which the report was discussed. The minutes must summarize the findings and any corrective action that should be taken by the Company.
- f. The Compliance Officer must ensure that all those mentioned in the first paragraph of this section receive copies of the Actuary's Pricing Reports, the Board Summary documents and the Underwriting Manuals.
- g. In addition, all members of staff who have a designated underwriting authority level must be passed copies of the Underwriting Manual by the Compliance Officer. The Company must ensure that it has in place a central database, accessible by Senior Management and all Internal Control functions, containing full records of all quotations issued by the Company, and all supporting data.

## 7 IMPLEMENTATION OF NEW RATING STRUCTURES

### 7.1 File and Use

- a. All submissions to SAMA required by these instructions are on a "File & Use" basis.

Yours sincerely,  


**Hesham Tashkandi**  
**Director General of Insurance Control**

cc: Appointed Actuaries

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## Appendix One – Additional Requirements

### Actuarial Pricing Tool - Blending Book Rates with Experience on Larger Schemes

- a. An Excel spreadsheet, or actuarial pricing tool, must be produced which ensures that the pricing mechanism adopted complies with the credibility formula recommended by the Actuary.
- b. This must be submitted to SAMA together with submission of the actuarial pricing report.

### Medical Pricing Template

- a. The Appointed Actuary must fill in the attached MS Excel template and submit to SAMA along with the pricing report.

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## Appendix Two - Mandatory Loading Requirements - Details

The Appointed Actuary is required to include at least the following loadings within the Office Premium rates:

- 1) An expense loading
- 2) A commission loading
- 3) A profit loading
- 4) A contingency loading

### 1. Expense loading

1.1 The expense loading must cover all of the Company's expenses, excluding commission expenses, both for policyholders and shareholders, which are considered relevant for Medical Expenses Insurance line of business. For this purpose, the Appointed Actuary should carry out four sets of calculations, as listed below:

- i) Expense loading based on the **overall expenses** of the company determined with reference to the **last financial year's actual expenses**.
- ii) Expense loading based on the **expenses for the Medical Expenses Insurance line of business** as allocated by the Appointed Actuary with reference to the **last financial year's actual expenses**.
- iii) Expense loading based on the **overall expenses** of the company determined with reference to the **next year's business plan**.
- iv) Expense loading based on the **expenses for the Medical Expenses Insurance line of business** as allocated by the Appointed Actuary with reference to the **next year's business plan**.

1.2 Where the expenses loadings calculated under items (iii) and (iv) in the preceding paragraph above are lower than the corresponding loadings based on the last year's actual expenses, the use of expenses loadings based on the next year's business as a reference is permitted only if the Company has cover for its required solvency margin in excess of 100% as at 31 December 2017, and the Company is not known to have breached that threshold of 100% since then.

1.3 The Appointed Actuary should use his professional judgment to select an appropriate expense loading with due reference to the above four estimates. This selection should be justified and documented. Where the selected expense loading is lower than the above four estimates, SAMA may require additional explanation for the Appointed Actuary's selection.

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1.4 The Appointed Actuary should develop an appropriate allocation of expenses for the medical line of business. The methodology and assumptions used for this allocation must be justified and documented adequately.

1.5 The expenses projected for the next year's business plan must be based on justified and documented assumptions.

### **2. Commission loading**

The commission loading will normally reflect the actual commission to be paid on a case-by-case basis.

### **3. Profit loading**

The profit loading must be used with input from the Company's management, and it must be approved by the Board of Directors of the Company. The Appointed Actuary must document the profit loading used in his pricing report.

### **4. Contingency loading**

An allowance must be made for contingencies with due consideration for all relevant factors, e.g., historical volatility of the Company's claims experience, market benchmarks on claims volatility, cost of capital, etc. The Appointed Actuary must document the contingency loading used in his pricing report.

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**Appendix 3 – Claims Experience Form (attached)**

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