

# Saudi Arabian Monetary Agency

Head Office

## General Department of Insurance Control

18 October 2018

Dear CEO

### Motor Pricing 2018 – Assumptions Used and Emerging Experience

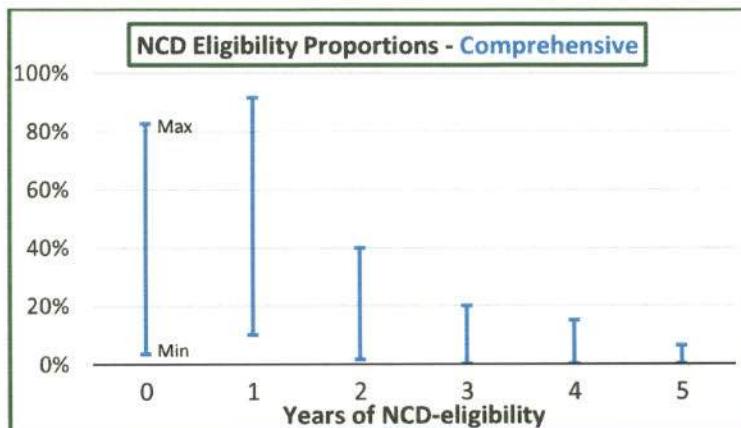
Having assumed charge of SAMA Insurance Control recently, I am writing to assure you that the ongoing improvements in the motor insurance market will continue to remain SAMA's priority, and I plan to further enhance the mechanism of those improvements. I aim to work collaboratively with the insurance sector and seek your full cooperation in working towards the betterment of both the sector and the policyholders.

In this context, I would like to share some important observations from SAMA's review of motor pricing reports submitted by the insurance companies in June this year. We are also aware of some challenges faced by the industry in implementing SAMA's instructions under circulars 156 and 161, in particular for NCD-eligibility determination with precision. SAMA has worked closely with the stakeholders, including Najm, in order to overcome those challenges. Given the early stages of the new motor pricing regime, such challenges are not totally unexpected; it is however important that we continue to work jointly to address any future issues.

In this letter, we also share some latest updates since refinements were made to the NCD-eligibility determination process, starting from late August.

#### 1. Wide range of NCD-eligibility assumptions

The graph below shows the minimum and maximum values for assumptions on NCD-eligibility used in the actuarial pricing reports submitted by the insurance companies. While the graph below pertains to Comprehensive insurance business only, very similar ranges were observed for Third Party Liability insurance business.



Note: Above graph is based on the pricing data and reports submitted by the insurance companies on 1<sup>st</sup> June 2018.

The large variations in the NCD-eligibility assumptions, as seen in the above graph, have a direct bearing on the final actuarial premium rates. While the experience of one company may differ from another, possibly due to differences in the underwriting practices and target

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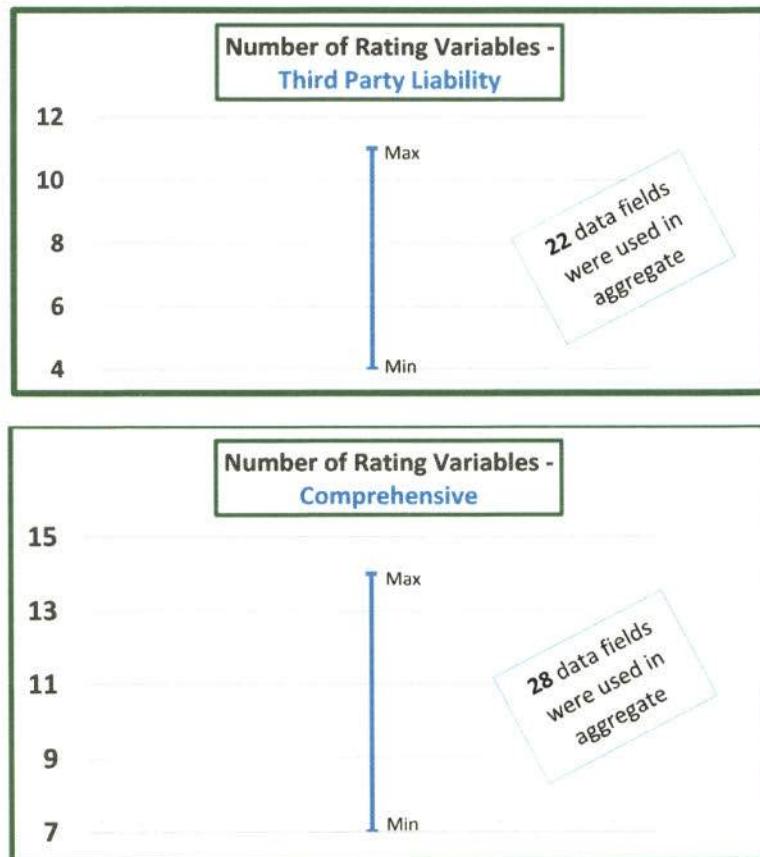
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segments, it is unlikely that those factors could lead to such wide variations. Any errors in actuarial judgment may affect, possibly materially, the volume of business written and/or the profitability of a company.

SAMA therefore expects all insurance companies to regularly monitor the emerging experience against the assumptions used in the actuarial pricing and, where necessary, re-visit the actuarial prices. Any revision to the actuarial prices should comply with SAMA's instructions in Circular 156 and Circular 161, including submission of an actuarial addendum to SAMA.

### 2. Range of Rating Variables Used in Actuarial Pricing

SAMA is pleased to observe that a large number of companies went beyond the regulatory minimum and sought to innovate in terms of the type and number of rating variables used, although there were still a few companies that limited themselves to the bare-minimum. The graphs below show the minimum and maximum number of rating variables used for Third Party Liability and Comprehensive insurance businesses. The aggregate number of data fields underlying the above range of rating variables is also mentioned in each graph.



Note: Above graphs are based on the pricing data submitted by the insurance companies on 1<sup>st</sup> June 2018.

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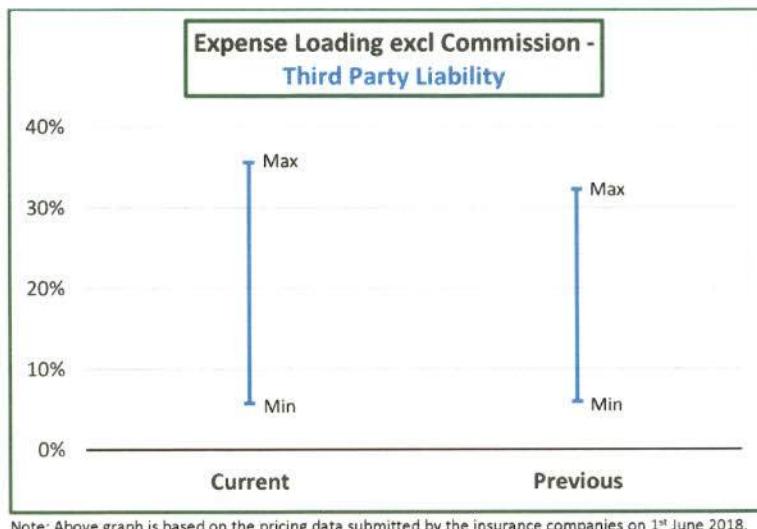
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SAMA encourages the insurance companies to continue to innovate and aim to further improve their pricing sophistication. SAMA is conscious that good quality data is fundamental to such improvements and it is expected that all insurance companies will invest adequately in data recording and validation processes and systems, while also complying with SAMA instructions under Circular 156, 161 and other relevant circulars on mandatory data fields to be captured.

### 3. Wide variations in Expense Loading assumptions

The graph below shows the minimum and maximum values for expense loading assumptions (excluding commission) used in the aforementioned actuarial pricing reports for Third Party Liability insurance business. A comparison with the range of expense loading assumption based on the previous pricing basis is also provided. The Comprehensive insurance business also shows a very similar picture for this loading.



The wide range seen above imply that an insurance company can be in a significantly advantageous or disadvantageous position compared to its peers, depending upon the level of its expenses. Also, compared to the previous set of assumptions, the range has widened, likely exacerbating the challenge for those towards the high end of this range.

SAMA expects the insurance companies to pay special attention to this area, and strive to bring their expenses down in order to remain competitive in the market.

### 4. Emerging experience of NCD-eligibility and impact of refinements by SAMA

Based on the feedback received from the insurance companies regarding a high proportion of policyholders and named drivers being assigned full five years' NCD, SAMA worked closely with the stakeholders, including Najm, in order to ensure that Circular 156 and Circular 161 are implemented in letter and spirit.

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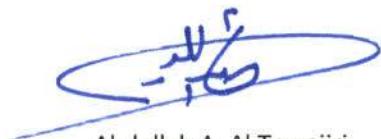
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Based on the market statistics for the period 24<sup>th</sup> June – 30<sup>th</sup> September 2018, we have observed a big shift in the NCD-eligibility proportions starting from late August 2018. In particular, for both Comprehensive and TPL policies, there is a sharp drop in the proportion of policyholders receiving full five years' NCD. An even bigger reduction was observed in the proportion of 'drivers' being assigned five years' NCD-eligibility via Najm's Ahaqeeah (احقية) system.

Additionally, based on the above market statistics, we have observed that a large number of policyholders were deemed ineligible for NCD due to apparent possession of other uninsured vehicle(s). This is a major development, and contributes towards SAMA's goal of increasing the insurance penetration. A larger pot of insurance is expected to help both the insurance companies in the form of increased revenues and the insured population by reducing the cost of insurance via spreading it over a larger policyholder base.

In light of the above observations and developments, SAMA therefore expects each insurance company's management to pay extra attention towards the pricing of motor insurance business, with due regard to the evolving experience. Ultimately, SAMA expects that pricing basis will be fair to the policyholders and at the same time, each insurance company will strive to be competitive in the market place.



Abdullah A. Al Towaijri  
Director General of Insurance Control

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- All Appointed Actuaries