

Saudi Arabian Monetary Authority

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General Department of Insurance Control



All CEOs
All Appointed Actuaries

Motor Actuarial Pricing Reports March 2017 – SAMA feedback

Dear CEO/ Appointed Actuary

SAMA extends its appreciation to all those motor insurance companies which adopted the new pricing structure for Third Party Liability retail policies, including introduction of 'No Claim Discount' with effect from 1st April 2017. SAMA understand that the employees at all insurance companies worked hard to meet the target deadline. SAMA congratulates them on achieving this milestone in insurance industry's journey towards an insurance pricing regime built on a sound, technical basis, which also ensures that all customers are treated fairly.

SAMA has reviewed a sample of actuarial pricing reports submitted in March on or after 15th March 2017. The sample included at least one pricing report from each of the five actuarial consultants operating in the KSA market.

Below are our observations in respect of the above reports. We have also included our guideline in respect of each of those observations. We expect each insurance company to discuss those observations and guidelines with their respective appointed actuary and take steps for remediation as necessary. SAMA will monitor progress through a range of measures, including onsite visits, compliance reports, etc.

The most significant observation relates to the quality of data collected and maintained by the insurance companies which was generally inadequate and highly unsatisfactory. SAMA expects all companies to take immediate serious steps to remedy this deficiency and will be monitoring closely the status of the data quality maintained by the insurance companies in the days to come.

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

S No.	SAMA Observations	SAMA Guidance
Data		
1.	All actuarial reports identified the 'quality of data made available to actuaries' as an area requiring significant improvement.	SAMA expects all insurance companies to put in place appropriate plans to improve the quality of data used in pricing, including its granularity, completeness and accuracy, keeping in view both the current and future pricing requirements of the company (and not just SAMA minimum requirements).
2.	In at least one pricing report, data was deemed to be 'sufficient and reliable' despite observing a number of shortcomings in the data used.	In light of significant data gaps observed, SAMA does not expect an appointed actuary to give unnecessary comfort to management; instead we expect statements on data quality to include appropriate caveats and specific recommendations for improvement.
3.	It appears that, in general, data for the 'age of policyholder' was less reliable, either due to missing information or due to a lack of IT & system capabilities.	SAMA expects all insurance companies to expand their underwriting data as well as enhance IT & system capabilities in discussion with the appointed actuary in order to capture all relevant fields for pricing purposes.
4.	The extent of data validation performed by the appointed actuary varied significantly from one pricing report to the other, with	SAMA expects each appointed actuary to show due diligence and care when processing data for pricing, and at least perform

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

	some actuaries placing more reliance on a company's own data validation than what might be appropriate.	reasonableness checks and compare with other data sources (e.g., claims reports, income statement, etc.).
5.	Where market data has been used to supplement a company's own data, we did not find justification for its use, evidence of alignment with company risk profile, or any adjustments made to recognise differences between market data and the company's own risk profile.	SAMA expects each appointed actuary to appropriately document the use of market data, including its justification and adjustments (if any) made to it.
Assumptions		
6.	For claims inflation, assumptions used by the appointed actuaries fall within a 'very wide' range, which is surprising given the standardised nature of motor third party liability coverage. While part of these differences may be explained by the differences in the underwriting strategy and claims settlement practices of insurance companies, it also highlights the need for the actuaries to investigate the claims data in more detail, particularly where it forms the basis for the key assumptions.	SAMA considers the assessment of claims inflation as a 'critical' step in pricing as well as in reserving for motor and other lines of business. SAMA expects that all actuarial reports will devote appropriate details to the derivation of this assumption. This may include, but is not limited to, an assessment of claims inflation split by its source (spare parts, labour, judicial, exchange rate, etc.), by its components, (frequency & severity), and by the nature of coverage (Comprehensive vs Third Party Liability), etc.
7.	Assumptions used for the proportion of population expected	SAMA expects all insurance companies to closely monitor the

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

	<p>to qualify for the 'No Claim Discount' vary significantly from one company to the other. This has a direct impact on the rates charged.</p>	<p>emerging experience, comparing it with the assumptions made, and taking remedial actions as necessary.</p>
8.	<p>No (explicit) allowance has been made to allow for any (expected) improvement in driving behaviour due to the introduction of the 'No Claim Discount' and additional rating variables.</p>	<p>SAMA encourages the appointed actuaries to 'carefully' consider whether any changes in pricing structure and/or external factors (e.g., possible increase in fines for uninsured vehicles, Ministry of Health ruling, etc.) can have a material impact on the future claims experience and whether it is appropriate to reflect this expectation in the pricing assumptions being used.</p>
Methodology		
9.	<p>A majority of the appointed actuaries have used relatively basic calculation methodologies, with very few actuaries deploying the statistical modelling techniques.</p>	<p>SAMA encourages the appointed actuaries to use statistical modelling techniques (e.g. Generalised Linear Modelling), possibly moving in the future to more sophisticated approaches (e.g. Random Forest, Neural Networks, etc.).</p> <p>SAMA also expects the appointed actuaries to be equipped with suitable software to perform the complex pricing calculations.</p>

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

10.	In general, a 'burning cost' approach was used, with no split between the frequency & severity of claims.	SAMA expects that all calculations are made at appropriate levels of granularity.
11.	It was disappointing to note that almost all insurance companies limited their new rating structure to the 'minimum' rating factors specified by SAMA, and there was hardly any evidence of innovation in the number of rating variables selected. We understand that this was partly driven by a lack of good quality data.	SAMA expects insurance companies to differentiate in their pricing by exploring and introducing new pricing variables, thereby promoting a healthy competition on the basis of data quality and pricing sophistication.
Results		
12.	A majority of the actuarial pricing reports contained a summary of changes in premium rates as a result of the new rating structure; however almost all reports were missing an assessment of the overall rate change for the portfolio.	SAMA notes there is a lack of insightful reporting by the appointing actuaries, thereby limiting management's ability to make informed decisions. In the future, SAMA expects a clear impact assessment of any changes proposed by the appointed actuary, whether driven by insurance regulations or by emerging experience.
Governance, Controls & Monitoring		
13.	Almost all appointed actuaries have recommended close monitoring of emerging experience, particularly given the judgmental nature of various assumptions made for pricing in the face of unsatisfactory data quality.	SAMA agrees with this recommendation. During our upcoming onsite visits, SAMA expects to see evidence of this regular monitoring, along with any remedial actions taken.



Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

14.	At least one appointed actuary recommended that strong governance and controls be put in place to ensure that 'no claims discount' and new rating structure is implemented as intended.	SAMA emphasises the importance of putting appropriate and effective processes in place for the implementation of any new pricing structure. In particular, we expect every insurance company to have issued detailed guidelines to their underwriting and marketing teams to implement the 'No Claim Discount' in line with SAMA Circular 101.
15.	There was at least one instance where, in a company's actuarial pricing report, reference was made to a different company.	SAMA notes that a number of consulting actuaries serve multiple insurance companies in the KSA market. We therefore expect that each consultant will deploy appropriate quality controls in order to ensure that security & confidentiality of insurance companies' data is not compromised.
Compliance with Professional Standards		
16.	A majority of actuarial reports fell short of meeting the reporting and documentation standards specified by the relevant professional actuarial bodies. On one hand, it compromises the quality of the actuarial report, while on the other hand it affects the transparency (and hence reliability) of the methodology and assumptions used, making it difficult for the	SAMA reminds all appointed actuaries that they must strictly adhere to the professional standards of their respective professional bodies. Going forward, SAMA will seek evidence of compliance with 'continuous professional development' requirements from each appointed actuary.

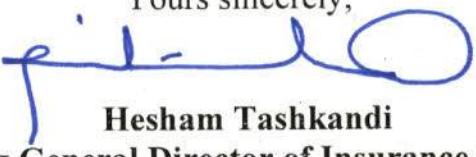
Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

	reader to make appropriate inferences from the report.	
17.	In one instance, where reference was made to the standards of a professional actuarial body, we noted that the concerned appointed actuary had not mentioned his membership of that professional body.	<p>SAMA expects all appointed actuaries to follow the standards of their own professional body.</p> <p>In this particular instance, SAMA will contact the relevant actuary to seek clarification.</p>
Others		
18.	A majority of the actuarial reports mentioned the ruling by Ministry of Health regarding the recovery of medical expenses from insurers as an area of significant uncertainty.	SAMA is in discussion with the relevant government departments. We will issue a clarification as soon as an understanding has been reached with the above departments.

Yours sincerely,


Hesham Tashkandi
Acting General Director of Insurance Control