

SAMA Review of Actuarial Submissions for Year 2021

Summary of SAMA's Expectations

Topic	SAMA Expectations
<p>1. Actuarial Reserves at year-end 2021</p>	<p>Booked Reserves vs Actuarial Recommendation:</p> <p>SAMA expects management to enhance its understanding of the uncertainty around the best estimate of reserves and decide on the management margin from an informed position and with due regard to the risk appetite of the Company. It is also expected that management will seek to understand its role in determining Risk Adjustment under IFRS17, and where current technical provisions include a management margin, the impact of releasing those margins when transitioning to IFRS17</p> <p>Role of the External Auditors:</p> <p>SAMA expects each Audit Committee to ensure that the scope of external audit requires adequate input from the external auditor's actuary, that the external auditor's actuary possesses appropriate professional qualification and skill and is fully aware of the latest trends in the Saudi insurance sector, and that sufficient interaction between the external auditor's actuary and Appointed Actuary is appropriately covered in the scope of audit activities. Where the Company uses the services of a TPA, the Audit Committee shall satisfy itself that the audit scope appropriately covers the activities of the TPA, as applicable under the International Auditing Standards. SAMA expects the Audit Committee to facilitate, monitor and ensure adherence by the external auditors to the above scope items.</p> <p>Trends in Health Insurance:</p> <p>SAMA expects management to closely follow the emerging trends in Health insurance claims experience for each market segment, considering both short term and long term effects of delayed treatments due to COVID-19, identify and segregate temporary changes from permanent changes in the seasonality of claims, and write business on sound technical and profitable terms while staying competitive.</p> <p>Trends in Motor Insurance:</p> <p>SAMA expects management to ensure close monitoring of the emerging claims experience under Motor insurance, identification of drivers behind the recent spike in loss ratios, understanding of changes in the seasonality of claims and implementation of corrective measures on a timely basis in order to avoid underwriting losses and unhealthy price competition.</p> <p>COVID-19 Related Claims:</p> <p>SAMA expects management to continue to monitor the emerging experience, particularly given that the cost of COVID-19 claims will have to be borne by insurance companies going forward as per the CHI instructions, as well as be on the lookout for any new waves or new virus outbreaks (e.g., monekypox). Moreover, it is expected that learnings from COVID-19 will be embedded in the pricing, underwriting and claims management philosophies of the Company.</p> <p>Impact of Pricing Adequacy on Loss Ratios:</p> <p>SAMA expects management to ensure: a) reliability of data used to produce the pricing adequacy reports; b) full automation of the process to produce the pricing adequacy reports; c) strict adherence to the authority framework for discretionary reduction in premium rates; d) timely sharing of information with the Board of Directors as regards the expected financial</p>

Topic	SAMA Expectations
	<p>impact of any material pricing discounts; e) maintaining a strong feedback loop between the Underwriting function and the Appointed Actuary for maintaining the relevance and accuracy of the technical prices calculated by the Appointed Actuary.</p> <p>Salvage & Subrogation (S&S) Estimates: SAMA expects management to continue enhancing the efficiency of its claims recovery process in order to maximize the benefit of this potentially sizable revenue source, and be able to offer more competitive rates to policyholders, in particular for Motor Comprehensive policies.</p> <p>Reserve segmentation for Motor insurance by Sales Channel: SAMA expects the Appointed Actuary to seek to further refine the analysis of business sourced via aggregator channels, including retail leasing, and respond adequately both in actuarial pricing and reserving in a timely manner.</p>
2. Actuarial Pricing Report 2021 for Health and Motor businesses	<p>SAMA expects the insurance company management to:</p> <ul style="list-style-type: none"> • ensure reliable and comprehensive data is made available to the Appointed Actuary; • provide adequate challenge to the key assumptions used by the Appointed Actuary; <p>SAMA expects the Appointed Actuary to:</p> <ul style="list-style-type: none"> • explain the pricing methodology and key assumptions to management in an easy-to-understand manner, along with the changes in prices and drivers behind those changes; • continue to push for pricing sophistication, seek to differentiate the Company's pricing basis from the competition, and move beyond the minimum stipulated by SAMA; • monitor emerging experience and regulations, and update prices on a timely basis and as frequently as necessary, and not only at the time of producing the annual pricing report; and • fully involve the internal Actuarial Function in every pricing exercise and guide them in order for the internal Actuarial Function to work effectively with the Underwriting and Claims functions so that any emerging trends can be identified and reflected in the actuarial pricing basis on a timely basis.
3. Reinsurance Appropriateness and Adequacy report 2021	<ul style="list-style-type: none"> • SAMA expects the Board of Directors and senior management to actively consider the recommendations of their Appointed Actuary, with due input from Underwriting and Reinsurance departments. • SAMA expects the Board of Directors to seek to fully understand the rationale behind the recommendation of its Appointed Actuary and actively consider those changes, with due consideration of the reinsurance market conditions and of the Company's own risk appetite. • SAMA expects each Appointed Actuary to remain abreast of the latest professional developments in the area of reinsurance optimization and continue to explore and implement more sophisticated modelling techniques. • SAMA expects management to consider the optimal treaty structure for each line of business individually so that any decision around purchasing a bouquet of treaties can be taken from an informed position.

Topic	SAMA Expectations
	<ul style="list-style-type: none"> SAMA expects the Board of Directors and senior management to set clear goals for the Appointed Actuary so that the output generated is in line with the expectations and business requirements of management.
4. Solvency and Capital report 2021	SAMA expects management to carefully consider the results of the Stress & Scenarios Testing exercise for shaping its business strategy and risk mitigation arrangements. SAMA also expects management to analyze the capital resources currently available against those indicated by the Stress & Scenarios Testing exercise, and hold discussions to identify options for meeting any potential shortfalls if the need arises in the future
5. Experience Studies report 2021	<p>Expense Ratio for PDR Purpose:</p> <p>SAMA expects the Appointed Actuary to ensure that expense ratio assumption used for the purpose of PDR calculation reflects the true incidence of expenses by line of business. Moreover, under IFRS17, which becomes effective from 1st January 2023, the topic of expense allocation will attain even greater importance, in particular due to its role in determining whether a group of contracts is loss-making or otherwise.</p> <p>Persistency:</p> <p>SAMA expects that management will invest in training of its marketing staff and in improving the value of its product offerings in order to improve the extent of customer satisfaction with those products and, in turn, the persistency ratios in the market.</p> <p>Mortality (Short Term Group Life):</p> <p>SAMA expects the Appointed Actuary to continue to monitor the emerging mortality experience and, in conjunction with the underwriting function of the insurance company, consider improving the pricing and/or underwriting basis as necessary.</p>
6. Investment and Asset Liability Management report 2021	<p>SAMA expects,</p> <ul style="list-style-type: none"> the Appointed Actuary to perform thorough analysis and provide clear recommendations to the investment team and senior management that are insightful and assist in informed decision-making in the process of making suitable investments; the investment team, senior management and Board of Directors to seek to understand the recommendations made by the Appointed Actuary, including implications of the current investment choices and alternatives available on the Company's ability to meet its liabilities with sufficient confidence and in a timely manner.