

SAMA Review of Actuarial Submissions for Year 2022

SAMA Expectations from Board of Directors and Senior Management

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<p>1. Actuarial Reserves at year-end 2022</p>	<p>1.1 Booked Reserves vs Actuarial Recommendation: SAMA expects management to enhance its understanding of the uncertainty around the best estimate of reserves and decide on the Risk Adjustment from an informed position and with due regard to the risk appetite of the Company.</p> <p>1.2 Role of External Auditors: SAMA expects each Audit Committee to ensure that the scope of external audit requires adequate input from the external auditor’s actuary, also ensuring the external auditor’s actuary possesses appropriate professional qualification and skills, is fully aware of the latest trends in the Saudi insurance sector, and there is evidence of sufficient interaction and challenge in respect of the work produced by the Company’s Appointed Actuary. Where the Company uses the services of a TPA, the Audit Committee shall also satisfy itself that the audit scope adequately covers the activities of the TPA, as applicable under the International Auditing Standards. SAMA expects the Audit Committee to monitor and ensure adherence by the external auditors to the above scope items.</p> <p>1.3 Trends in Health Insurance: SAMA expects management to closely follow the emerging trends in Health insurance claims experience, identify and differentiate between temporary v permanent changes in the seasonality of claims and adjust prices in a timely manner, and write business on sound technical and profitable terms while staying competitive.</p> <p>1.4 Trends in Motor Insurance: SAMA expects the Appointed Actuary to seek to further refine the analysis of business sourced via aggregator channels, including retail leasing, and respond adequately in actuarial pricing and reserving in a timely manner. Also, SAMA expects management to ensure close monitoring of emerging claims experience under Motor insurance, identification of drivers behind the recent spike in loss ratios and frequency of claims, deeper understanding of changes in the seasonality of claims, and implementation of corrective pricing measures on a timely basis in order to avoid underwriting losses and unhealthy price competition.</p> <p>1.5 IFRS 17 Technical Provisions-related Results: Given that these are still early days of IFRS17 implementation, SAMA expects appointed actuaries to continue to seek to refine their adopted methodologies considering the emerging experience, their benchmark position compared to their peers, evolving market best practices, and the Company’s own risk profile and risk appetite.</p> <p>1.6 COVID-19 Claims Experience: While the impact of COVID-19 related claims has so far been minimal for the Saudi insurance sector, SAMA expects management to continue to monitor the emerging experience and any new waves or new virus outbreaks. Moreover, it is expected that learnings from COVID-19 will be embedded in the pricing, underwriting and claims management philosophies of the Company. Also, since significant recoveries from</p>

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	<p>reinsurers are observed, SAMA expects management to continue to ensure there are no gaps between the original policy terms and reinsurance treaties in respect of pandemic-related claims under each affected line of business.</p> <p>1.7 Impact of Pricing Adequacy on Loss Ratios: SAMA expects management to ensure:</p> <ol style="list-style-type: none"> 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 Underwriting Authority Framework for discretionary reduction in premium rates; d) Timely sharing of information with the Board of Directors as regards the expected financial 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>1.8 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>1.9 Actuarial Reserving – Areas of Improvements:</p> <p>1.9.1 Segemntal reserving for Health insurance: Given the large differences in the performance of each of the health insurance segments, SAMA expects all appointed actuaries to perform the actuarial reserving at the minimum level specified.</p> <p>1.9.2 Premium Earnings Pattern: SAMA expects each Appointed Actuary to work with the Finance and Underwriting teams in order to arrive at an appropriate earnings profile for Engineering insurance and Inherent Defects Insurance.</p> <p>1.9.3 Salvage, Subrogation (Individual), Subrogation (Insurance Companies): SAMA expects all insurance companies to record the data in respect of recoveries at an appropriate level of granularity, and making sure that data available to the Appointed Actuary meets the reserving requirements.</p>
2. Actuarial Pricing Reports 2022	<p>For the purpose of pricing of Health and Motor insurance policies, 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>

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	<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; - ensure pricing assumptions are supported by recent experience and changes anticipated therein, and those assumptions consider the Company's own circumstances as well as the developments in the overall Motor and Health insurance sector - 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 on working 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 2022	<p>3.1 Management's Response to the Appointed Actuary's Recommendations: When making reinsurance purchase decisions, 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 functions.</p> <p>3.2 Changes recommended for Treaties in Reinsurance Optimization Report 2022: 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.</p> <p>3.3 Distribution of Frequency and Severity: 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.</p> <p>3.4 Percentage of Treaties by LOB Recommended for a change: 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.</p> <p>3.5 Goals and Constrains: 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.</p> <p>3.6 Reinsurers' Panel: SAMA expects the Board of Directors and senior management to seek to understand the impact of credit rating of its reinsurers on the reinsurance contract assets under IFRS 17, and ensure that its selection of reinsurers considers the attractiveness of the</p>

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	terms & conditions as well as the financial strength of the reinsurer, while also complying with the relevant SAMA regulations in this regard.
4. Solvency and Capital report 2022	SAMA expects management to carefully consider the results of the Solvency & Capital 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 shared exercise, and hold discussions to identify options for meeting any potential shortfalls if the need arises in the future.
5. Experience Studies report 2022	<p>5.1 Acquisition Cost for PDR Purpose: SAMA expects that, courtesy of recommendations issued by the IFRS 17 Working Group in respect of expense attribution, the difference in approaches observed between insurance companies can be reduced or altogether removed going forward. SAMA expects both Finance and Actuarial functions to closely follow the emerging industry best practice regarding the treatment of underwriting expenses when establishing the DAC asset.</p> <p>5.2 Expense Ratio for PDR Purpose: SAMA expects each Appointed Actuary to carry out the expense analysis part of the Experience Study Report diligently, so that the need for revision and updates can be minimized at the year-end, thus saving time and effort.</p> <p>5.3 Unallocated Loss Adjustment Expense (ULAE) Reserve: SAMA expects each Appointed Actuary to continue to refine the calculation of unallocated loss adjustment expense reserves in light of the benchmark comparisons and industry best practices.</p> <p>5.4 Factor applied to Case Reserves: SAMA expects each Appointed Actuary to continue to learn from the market best practice and benchmarking comparisons and refine the assumptions for setting the provision for unallocated loss adjustment expenses.</p> <p>5.5 Persistency (Long Term Life): 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>5.6 Mortality (Group Life and Group Credit Life): SAMA expects the Appointed Actuary to continue to closely 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> <p>5.7 Protection and Saving Pricing Report: SAMA expects the Appointed Actuary to improve the quality of the Protection and Savings pricing report, comply with the relevant SAMA instructions, and adhere to the actuarial reporting standards of his/her respective professional body.</p>
6. Investment and Asset Liability	<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

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Management report 2022	insightful and assist in informed decision-making in the process of making suitable investments; <ul style="list-style-type: none"> - 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. - the Control functions within the Company to assess the Company's position against the market benchmarks shared and where the Company is an outlier, seek justification or corrective action from the investment team, as appropriate.
7. Actuarial Resources Survey 2022	SAMA expects management of insurance companies and actuarial service providers to ensure an adequate actuarial training and development policy is in place that provides appropriate incentive to qualify as a Fellow actuary. It is expected that management will learn from benchmark comparisons with their peers and, where deemed necessary, will seek to improve and enhance the existing actuarial training and development policy.