Dear CEO

Insurance Authority's review of Actuarial Pricing Reports for Year 2025

The year 2025 was the sixth consecutive year of insurance companies submitting actuarial reports under the Actuarial Work Rules (AWR) issued in March 2020. The primary objective of these Rules is to enhance the role and responsibilities of actuaries in the insurance sector in order to facilitate informed decision-making by management and to provide greater technical support to the business as the market sophistication continues to grow in the Kingdom.

Under the above Rules, an Appointed Actuary is obligated to carry out technical pricing of risks, at least annually and more frequently if business environment so demands, and report to the Senior Management, Board of Directors and the Insurance Authority (IA) the outcome of those exercises. The pricing exercises are required to be carried out for Health, Motor and Protection & Savings insurance at a minimum; the IA (or the Company management) may also require the Appointed Actuary to carry out a similar exercise for other lines of business.

Depending upon the appropriateness of the assumptions used, range of rating factors considered, allowance made for any regulatory changes, and credibility assigned to a client's own claim experience, the competitive position of an insurance company is likely to be significantly dependent on the Appointed Actuary's recommended technical prices.

The regulations also give discretion to a Company management to deviate from the technical prices recommended by its Appointed Actuary, provided there are adequate controls in place in the form of:

i) An underwriting authority matrix that specifies the deviation limit by role,
ii) A requirement for the underwriter to document justification for deviation from the technical rate,
iii) Quarterly reporting by the Appointed Actuary to the Board of Directors on the expected financial impact of deviating from the technical prices in the form of Pricing Adequacy Reports for Health and Motor lines of business.

This document encompasses the IA's observations from its review of the following actuarial pricing reports:

1. Health Actuarial Pricing Reports (pages 3-22)
2. Motor Actuarial Pricing Report (pages 23-41)
3. Protection & Savings Actuarial Pricing Report (pages 42-56)

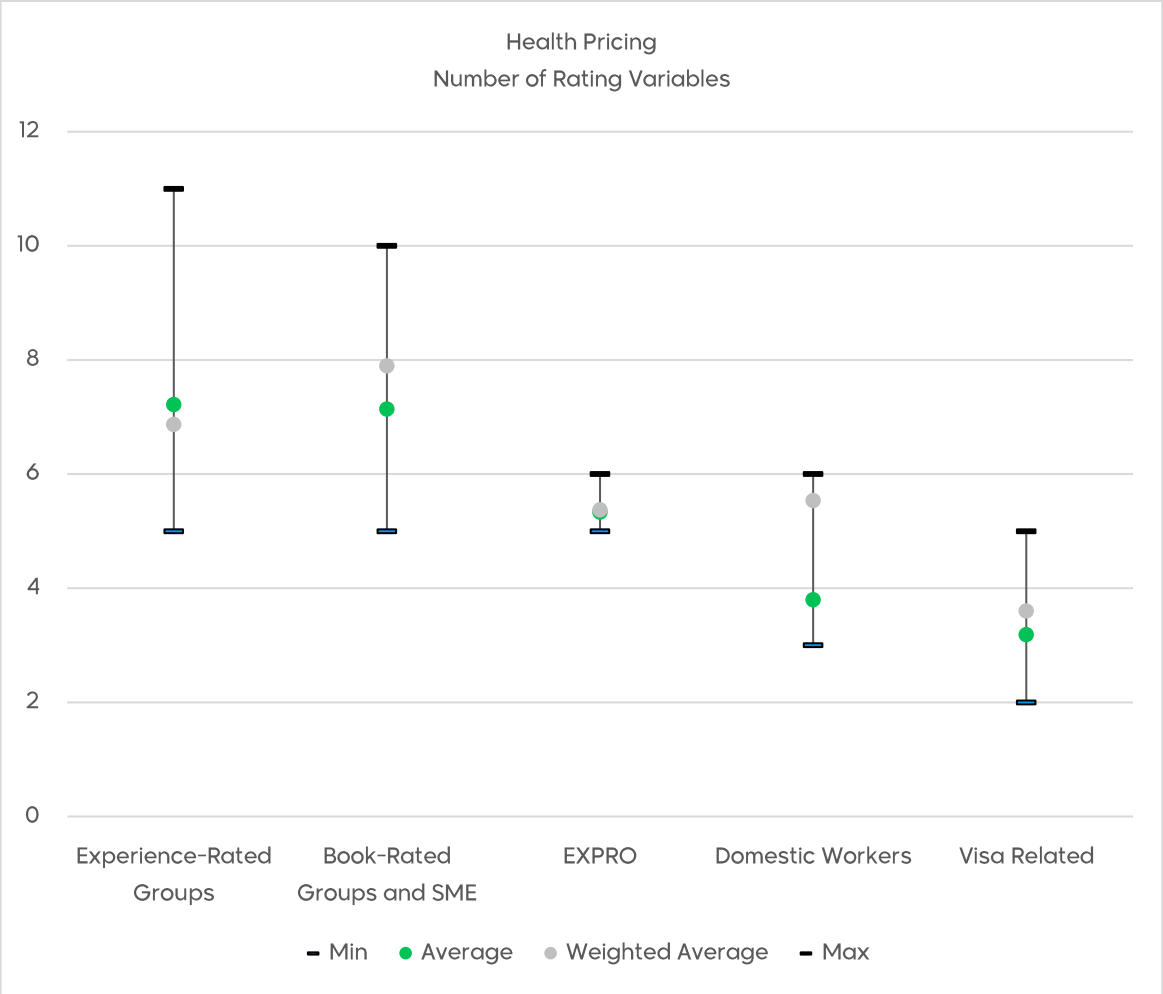
A number of important observations emerged from our review. We are sharing these observations with the Company's management together with our expectations in respect of those observations, in anticipation that management will consider each of those observations and IA expectations diligently, internal discussions will be held at the Board of Directors' level and with all relevant functions, and appropriate actions will be taken by management.

Furthermore, similar to last year, a separate brief document accompanies this letter that summarizes the IA's expectations regarding actuarial pricing going forward.

1. Actuarial Pricing Reports – Health Insurance

1.1 Number of Rating Variables

The IA encourages the appointed actuaries to continue to explore new rating variables with the objective of enhancing the pricing sophistication and accuracy in the Saudi insurance sector. The graph below shows the range of the count of rating variables used by insurance companies for pricing of Health insurance policies in 2025 by product type.



* Visa related: Excluding Umrah.

For all products, with the exception of EXPRO policies, there is a marked variation between insurance companies in terms of the number of rating variables considered. For EXPRO policies, the average number of rating variables (as well as the maximum) is noticeably lower than for experience-rated group policies despite a number of similarities between the two

segments, possibly due to non-differentiation of benefit structure among EXPRO policies. This may still need attention of insurance companies particularly given the adverse loss ratio experience under EXPRO policies to date.

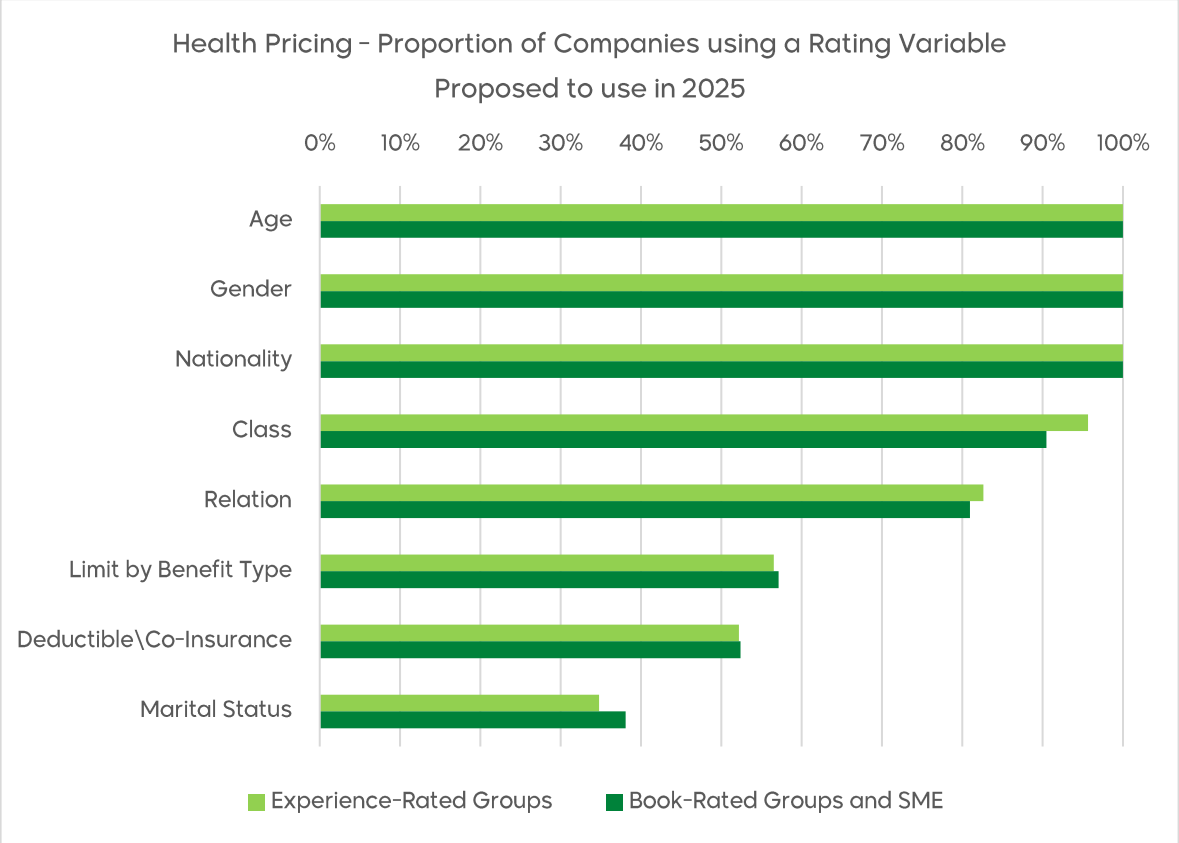
Moreover, compared to the statistics seen in the last Pricing DEAR CEO letter, we note an increase in the maximum number of rating variables being used for experience-rated group policies (11 vs 10 rating variables previously), showing the continuous push by some companies to increase their pricing sophistication year on year.

For those insurance companies towards the lower end of this range, this can affect, possibly materially, their competitive position as well as the profitability of their business due to potentially less accurate pricing than their peers, thus highlighting the need for those companies to improve their pricing basis on a priority basis in order to remain competitive and write business on profitable terms.

1.2 Propensity of Use of Individual Rating Variables

A fundamental role of pricing actuaries is to continuously strive for pricing refinement by investigating and identifying new rating variables of significance. A collaborative and continuous effort involving actuaries, underwriters, and claims teams of an insurance company is crucial in identifying any new rating variables.

The following graph illustrates the commonly used rating variables by insurance companies in their pricing models for Group and SME health insurance pricing. Due to confidentiality and proprietary nature of less-frequently-used rating variables, the graph shows only those rating variables that are used by at least 30% of the market and at least 3 or more appointed actuaries.



Unlike in 2024 when benefit type (e.g., inpatient, outpatient, dental, optical, etc.) was recorded as a commonly-used rating variable, in the 2025 submission template, the IA requested information on rating variables separately for each benefit type, resulting in the removal of benefit type from the list of rating variables.

The IA expects those insurance companies and appointed actuaries who are still not using the above rating variables in their pricing models to actively consider whether and how to incorporate those rating variables in their pricing models going forward, including provision of reliable data for this purpose.

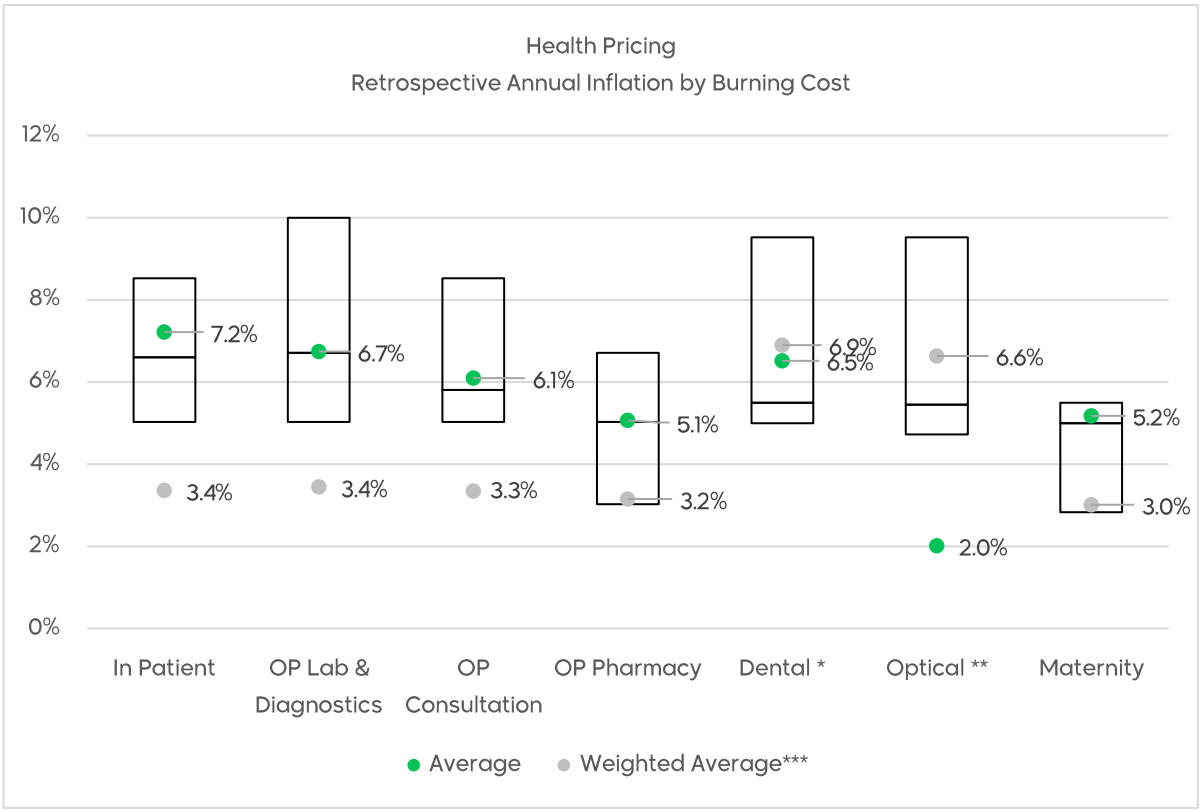
There is also a potential inconsistency in the counting approach adopted by insurance companies for certain rating variables (e.g., limit by benefit type). The IA Actuarial Team is continuously collaborating with the appointed actuaries to enhance consistency of reporting in this area so that a like-for-like comparison between insurance companies can be made.

1.3 Inflation Assumption

Using an appropriate inflation assumption is of immense importance in actuarial pricing. There are two types of inflation assumption, namely retrospective and prospective, that need to be estimated by the appointed actuaries. Using inaccurate assumptions for any of these two can have material consequences for the accuracy of technical price derived by an Appointed Actuary.

1.3.1 Retrospective (Historical) Inflation Assumption

The retrospective (historical) inflation assumption is used to bring the historical claims cost to the current cost levels. The graph below shows the range of retrospective inflation assumptions by treatment-type used by the appointed actuaries.



* One company has reported a negative retrospective inflation for dental treatments.

** Two companies have reported negative retrospective inflation for optical treatments.

*** The weighted average values in the graph use total gross written premium from year 2022 to 2025Q1 as the weights.

In general, compared to the inflation assumptions shown in the last Pricing DEAR CEO letter, material changes are observed in the average inflation

assumptions used this year. This can be attributed in part to the regular review and updating of various assumptions performed by the appointed actuaries of insurance companies in consideration of emerging experience and market benchmarks (similar to this DEAR CEO letter). This change can also be partly attributed to the change in IA's approach to calculate these averages, where for each insurance company and treatment type, the inflation assumption is calculated as the weighted average of inflation assumptions across all policyholder segments (i.e., corporate, SME, visa products, etc.) unlike in the past when a simple average across all policyholder segments was taken. The revised approach is a more accurate reflection of overall inflation assumption applicable for an insurance company, and in turn for the overall sector.

The most notable observation above is the significantly lower weighted average values across many treatment types than the corresponding simple average values, implying greater ability of larger insurance companies to keep costs under control through stronger negotiation power and more effective claims management. Dental and Optical treatments appear to be exceptions to this observation for the reasons stated underneath the above graph.

It can also be observed above that there is a wide interquartile range of values for many treatment types, indicating large differences in views amongst insurance companies, leading to potentially material differences in technical prices among those insurance companies.

Overall, inflation levels vary by benefit type, reflecting differences in utilization patterns and cost drivers. Notably, Outpatient Lab & Diagnostics, Optical and Dental benefits exhibit the widest ranges of inflation assumptions, while inpatient treatments, both maternity and non-maternity, show comparatively narrow interquartile ranges.

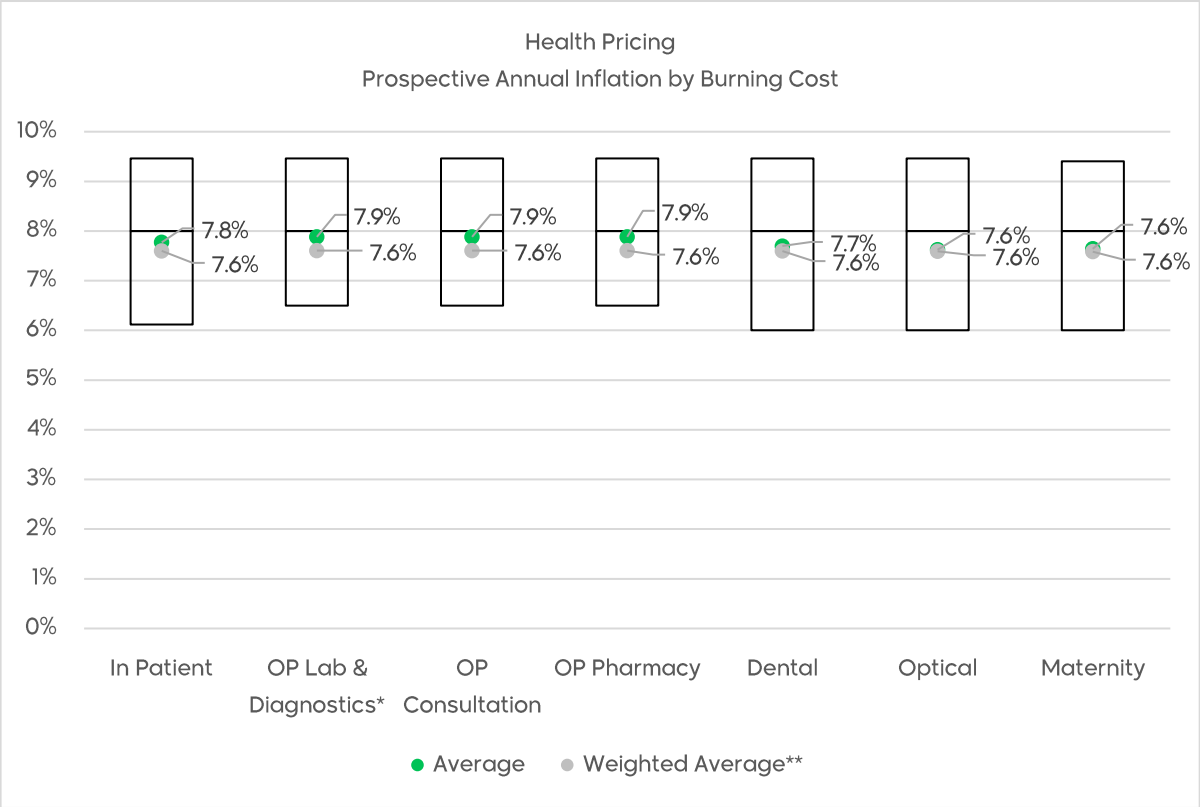
These results reinforce the importance of segment-specific assumption-setting and highlight the need for insurance companies to ensure that inflation assumptions are robust, evidence-based, and aligned with the underlying cost dynamics of each benefit category. Moreover, given the potentially large impact of changes in retrospective inflation assumption on the final technical

price, the IA expects a rigorous review and challenge process around this assumption-setting or any changes to it at each insurance company.

1.3.2 Prospective (Future) Inflation Assumption

The prospective (future) inflation assumption adjusts the premium from the point of calculation to the point of medical treatment.

The graph below shows the range of prospective inflation assumptions by treatment-type, used by the appointed actuaries.



* Some companies do not differentiate outpatient inflation assumption by treatment type and instead use a single assumption for all outpatient treatment types

** The weighted average values in the graph use total gross written premium for year 2024 as the weights.

It can be observed in the chart above that, unlike that observed for retrospective inflation, the average values among treatment types are relatively similar, particularly for weighted average inflation assumptions.

Moreover, a narrower interquartile range is observed for outpatient treatments than observed in the case of retrospective inflation assumptions.

In addition, the weighted average values across all treatment types are only marginally below the simple averages, unlike that observed for retrospective inflation assumptions where the weighted average assumptions were generally significantly lower than simple average values. Moreover, the median and the 75th percentile of the prospective inflation assumptions are broadly consistent among all benefit types.

Furthermore, the average values are noticeably lower this year than observed last year, when they hovered in the 8-10% range compared to around 7.5%-8% range this year. Some of these changes could partially be attributable to the reasons cited above in respect of changes observed in retrospective inflation assumptions.

These variations between prospective and retrospective inflation assumptions indicate that many appointed actuaries believe that the past is not necessarily indicative of the future, a judgment that is expected to be supported by adequate justification.

1.4 Recommended Expense Ratio

Under the current regulatory guidance, an Appointed Actuary is required to calculate expense ratios using four different bases, and then the Appointed Actuary, using his own judgment, recommends the ratio to be used in technical pricing. This recommended expense ratio considers both attributable expenses and a share of non-attributable expenses.

The graph below summarizes the results of those four calculations and the ratios recommended by the appointed actuaries for use in technical pricing.

*The weighted average values in the graph use total gross written premium for year 2024 as the weights.

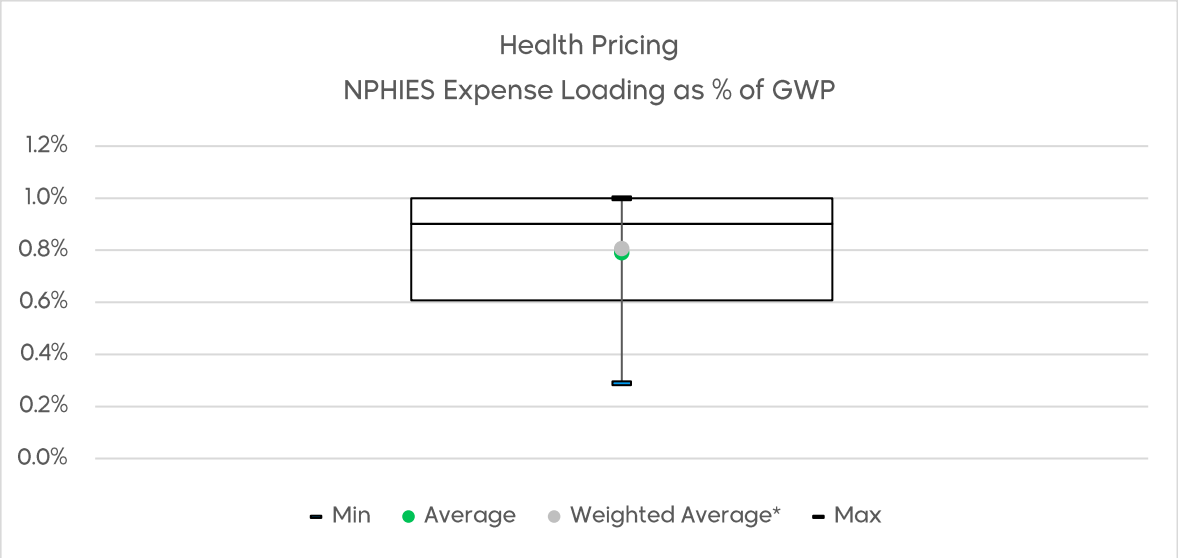
It can be observed that the weighted average expense loadings in the business plan are projected to be higher than the experience of last year and the appointed actuaries' selection is closely aligned with the business plan. In contrast, there is broad consistency in the simple averages across all four methods as well as the selected expense loading.

The noticeable difference between simple and weighted average values highlights the competitive challenge faced by smaller insurers due to the economies of scale benefiting larger players. Given the direct impact of this assumption on the final technical price, it should continue to be monitored by the appointed actuaries to ensure that the selected assumptions remain appropriate, evidence-based, and reflective of the evolving cost structure.

1.4.1 NPHIES Expense Ratio

The National Platform for Health and Insurance Exchange Services (NPHIES) aims to standardize and automate data exchange between healthcare providers and insurance companies in Saudi Arabia. This digital integration enhances transparency, improves claims efficiency, and supports data-driven decision-making across the health sector.

The NPHIES expense loading is applied at 2% of claims, shared equally between the service provider and the insurance company, with each bearing 1% of the total claims cost. The graph below shows the range of NPHIES expense loading used by the appointed actuaries (and included within the graph in the previous section).

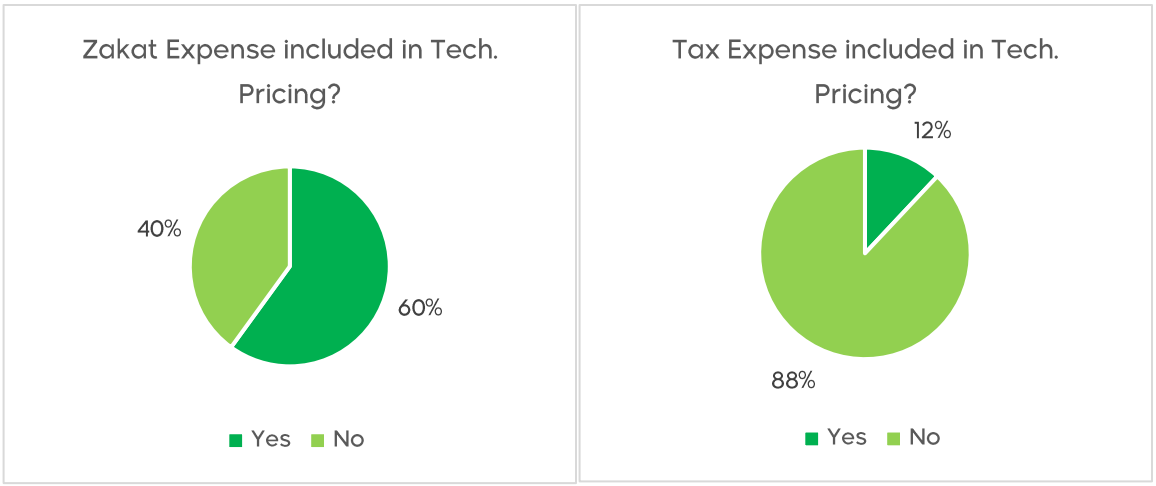


*The weighted average values in the graph use total gross written premium for year 2024 as the weights.

The graph above illustrates the loading applied as % of the gross written premium (GWP). Since the cost of NPHIES is charged as a percentage of claims cost, the ratio, when expressed as a percentage of GWP, is expected to remain below 1%. Given that the graph above shows the range of assumptions to extend from 0.3% to 1%, there is a possibility of underestimation by some and overestimation by some others, and we draw attention of the appointed actuaries of those companies to look into this assumption closely.

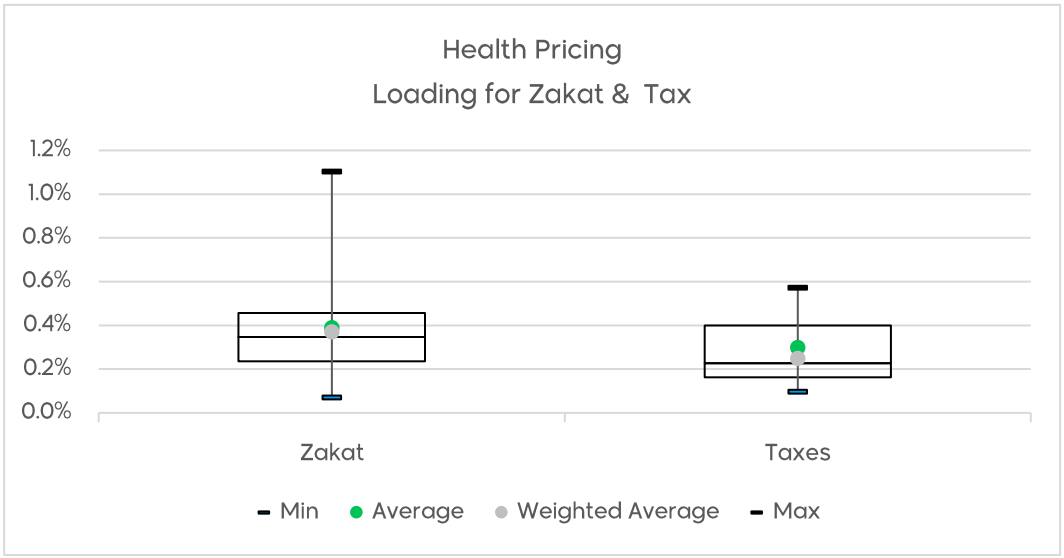
1.4.2. Treatment of Zakat & Tax

The graph below distinguishes between companies based on their treatment of Zakat and Tax outgo for the purpose of technical pricing.



It can be observed that while the majority of appointed actuaries have allowed for Zakat within their expense ratio assumptions, only a minority of appointed actuaries have done so as regards the tax expense. Several companies indicated that Tax is applied and managed at the overall company level, rather than being allocated or reported at the portfolio level.

For the companies that allowed for either Zakat or Tax or both in their respective expense ratio assumptions, the graph below presents the range of assumptions used.

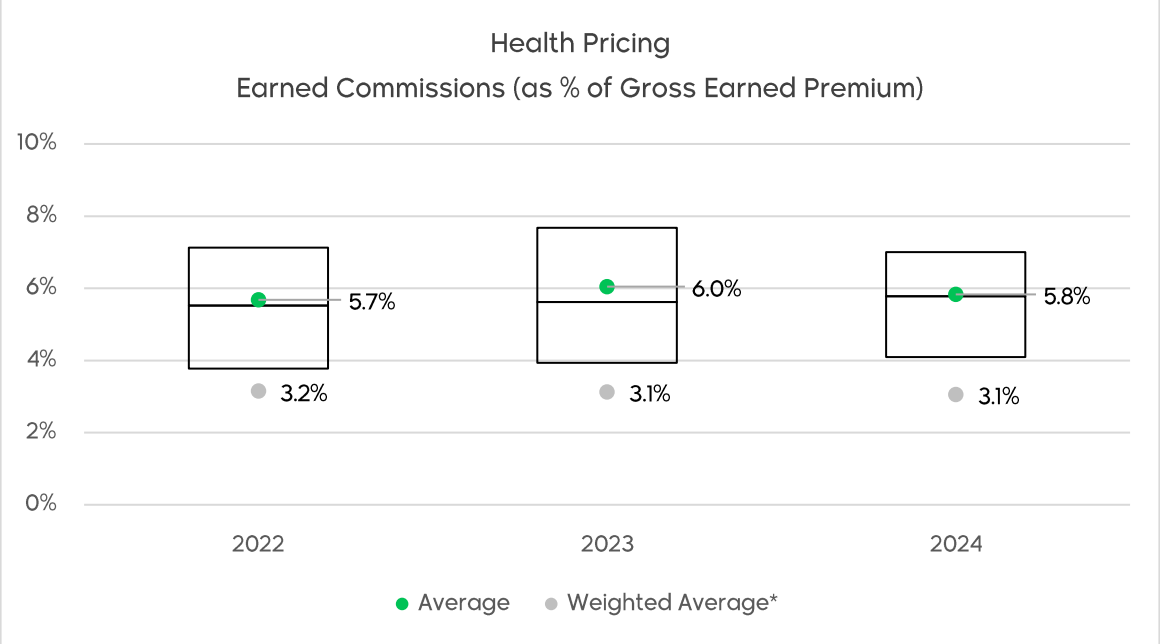


It is expected that this topic will be debated and deliberated among actuaries, with due input from Finance functions of insurance companies given their proximity to Zakat & Tax matters, in order to derive the market best practice that can be considered for adoption by all appointed actuaries.

1.5 Commission Ratio

Due to the large premium volumes associated with mandatory Health insurance coverage in Saudi Arabia, there is usually intense competition among insurance companies, and hence, profit margins are small in percentage terms. Therefore, the ability to write business at low commission rates can play an important role in keeping the premiums attractive enough for the policyholder while maintaining acceptable profit margins.

The graph below shows the actual commission earned as a percentage of the earned premium for the last three years of Health insurance portfolio.



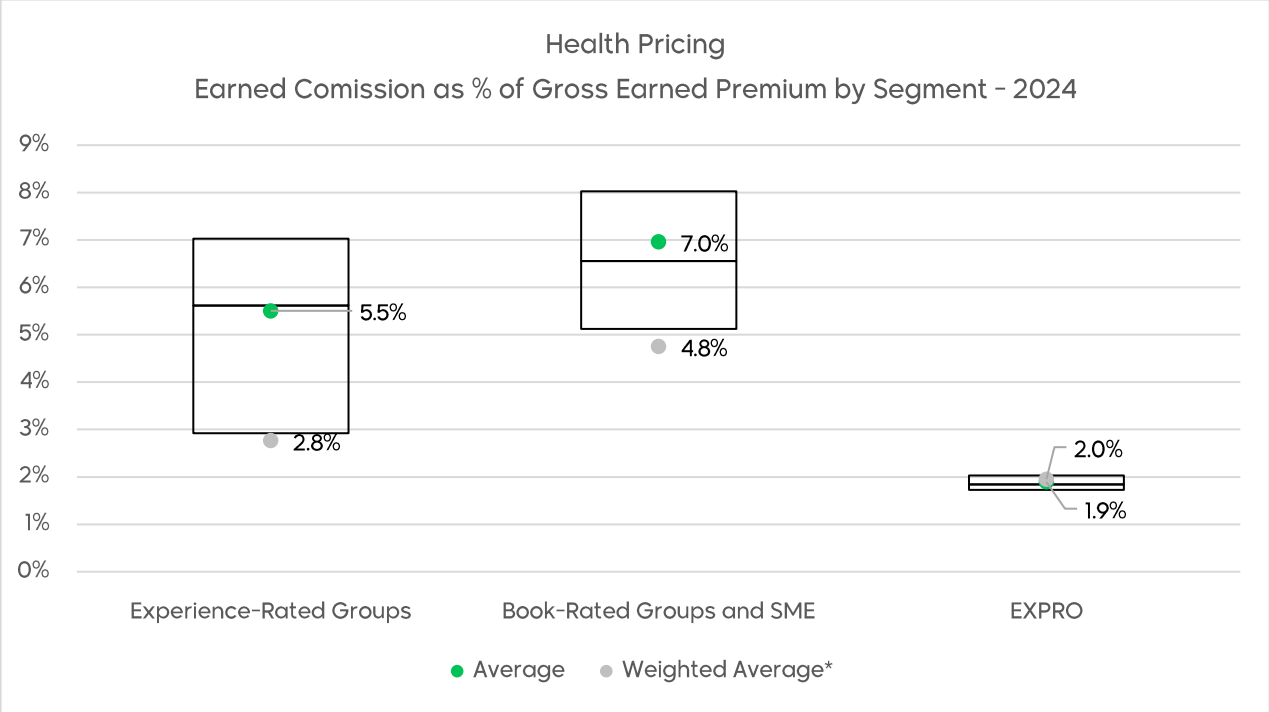
*The weighted average values in the graph use gross written premium as the weight.

Overall, the average commission rates have remained broadly stable over the past three years, indicating a consistent structure across the market. As implied by the noticeably lower weighted-average commission ratios, larger

insurers demonstrate their ability to achieve lower commissions than smaller insurers, either via stronger negotiation power or via stronger direct sales or a combination of both, thus keeping the overall prices low and gaining a competitive advantage.

In summary, it implies that smaller insurers need to look for innovative ways of marketing and selling, e.g., insurtech, in order to keep their commission costs down and be competitive with larger players, particularly in respect of large volume group policies.

As regards the differences in commission levels between Group vs SME vs EXPRO, the graph below shows the commission earned in 2024 as a % of gross earned premium.

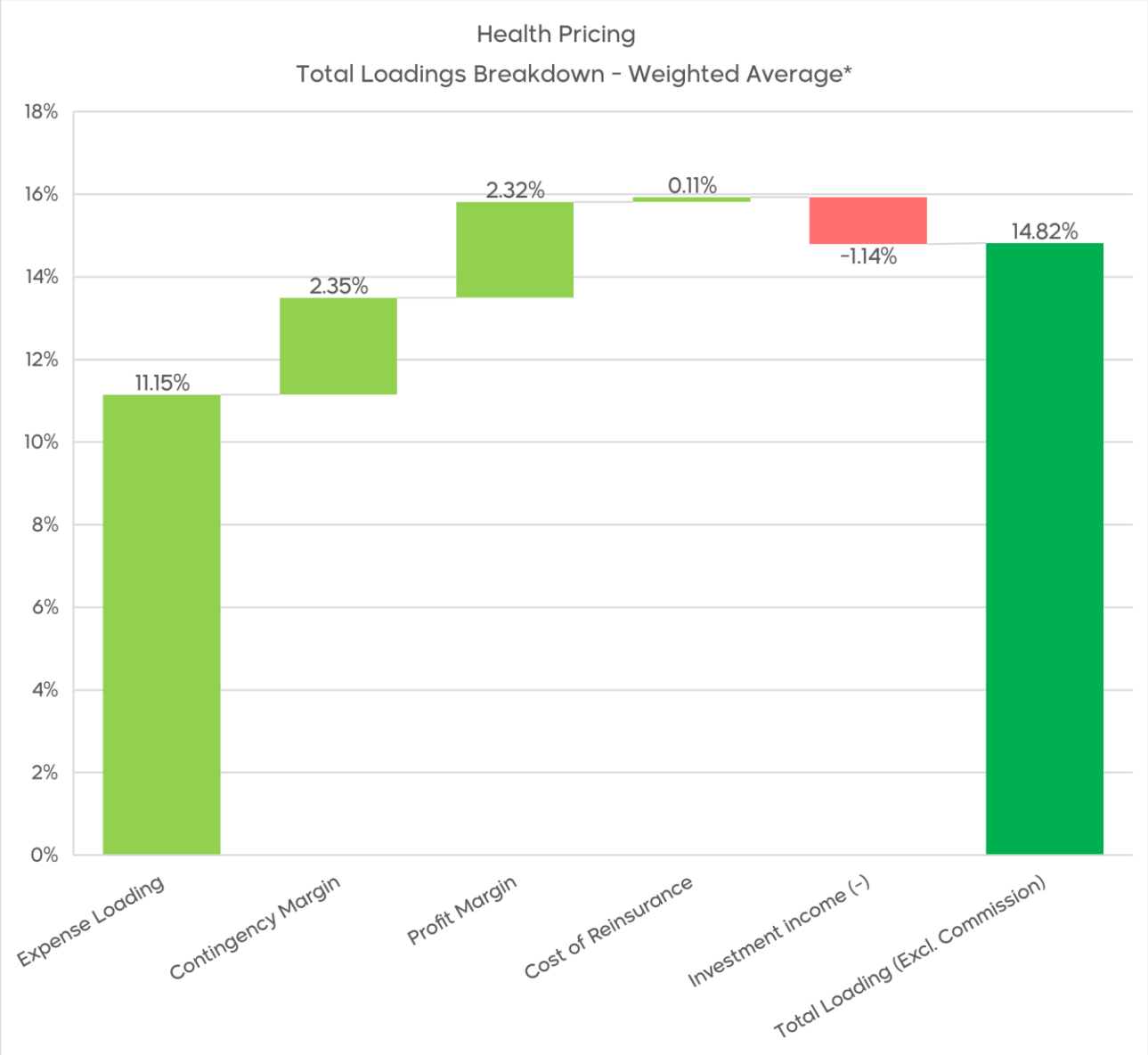


*The weighted average values in the graph use total gross written premium for year 2024 as the weights.

The relatively wide interquartile ranges for both Group and SME segments indicate some companies have a material competitive advantage due to their ability to sell at lower commission rates than others. Similar to that seen in the graph above, larger insurers demonstrate their ability to achieve lower commissions than smaller insurers in both Group and SME segments.

1.6 Composition of Total Loading

The graph below shows the components of total loading, on a weighted average basis, included in the final technical premium, excluding Tax and Zakat.



* The weighted average values in the graph use total gross written premium for year 2024 as the weights.

** Expense loading excludes Tax and Zakat to ensure consistency across reported results, as some companies included them while others did not.

As expected, the largest component of the overall loading is Expense Loading, whereas there is some offset for the anticipated investment income.

It may be noted that the above graph is heavily influenced by larger Health underwriters, and the loading composition of smaller underwriters may be

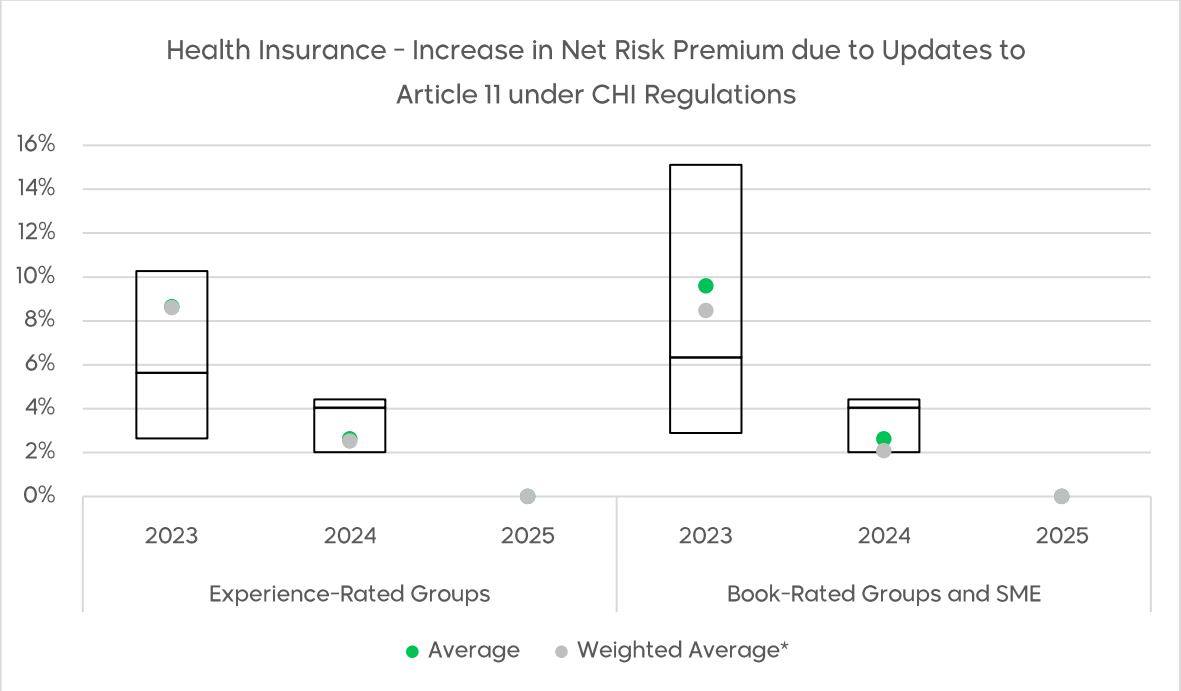
significantly different from the above, particularly the expense loading component. It may therefore serve as a useful benchmark for the smaller players, making them more cognizant of the competitive challenges facing them.

1.7 Impact on Health Insurance Prices due to Regulatory Changes

1.7.1 Article 11 of Council of Health Insurance (CHI) regulations

The Article 11 of CHI regulations allows government health facilities to recover the cost of providing medical treatment to those individuals who possess private health insurance through their employers.

The graph below shows the estimated increase in premium rates in year 2025 compared to the previous pricing exercises in year 2024 and 2023 due to the above regulation as determined by the appointed actuaries, considering the effect of Revenue Cycle Management (RCM) companies being deployed by government health facilities for faster and accurate billing.



*The weighted average values in the graph use total gross written premium for year 2022 to 2025Q1 as the weights.

The year on year reduction in loading seen above implies that insurance companies believe the recoveries from government health facilities are now fully reflected in the historical pricing data.

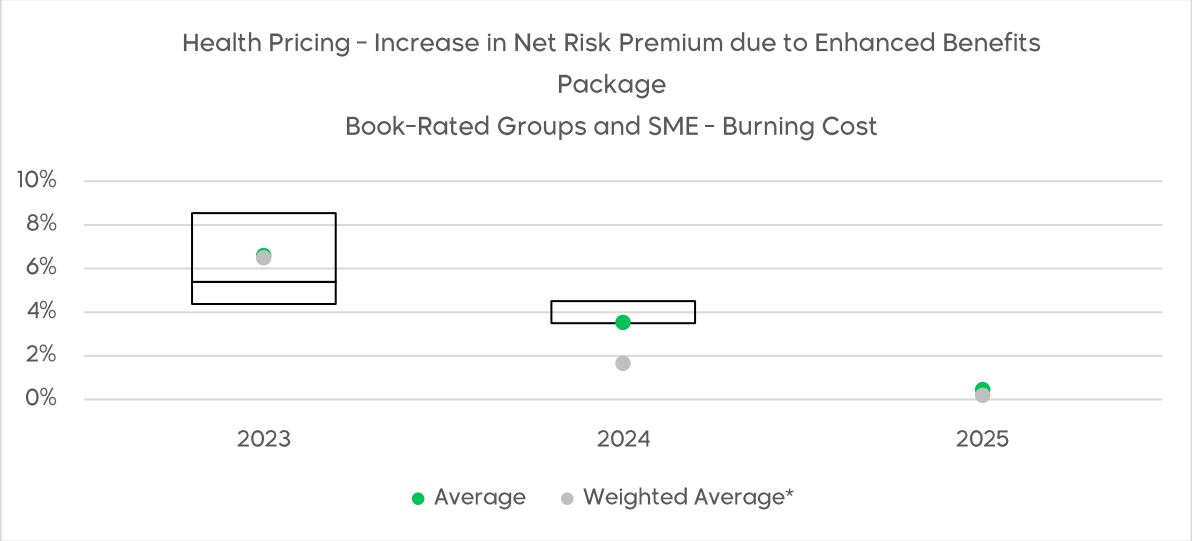
In this regard, we draw attention towards Circular no. (295) issued on 12 November 2024, which requires insurers to contract with government healthcare service providers. Notably, these contracts were signed after the submission of the Health Pricing Report in July 2025, and hence the anitipcated impact is unlikely to be inlcuded in the graph above.

As a result, it is expected that some additional cost impact will come through due to the above circular, which shall be considerd for the purpsoe of both actuarial reserving and pricing going forward. This effect on actuarial pricing is anticipated to be reflected in the pricing addendum due to be submitted by insurance companies in November 2025. The ongoing implementation of these agreements is likely to further influence the market outcomes, highlighting the importance of monitoring the effect of these contracts in the coming months.

1.7.2 Enhanced Benefits under CHI Policy

The CHI introduced an updated essential benefit package, which was adopted in part in October 2022. The precise timing for adoption of the remaining part is yet to be announced.

The graph below shows the average increase in prices/cost of treatment estimated by the appointed actuaries in response to this regulatory change, which reflects the cost that is yet to be fully reflected in the historical experience and/or the cost and likelihood of the remaining part of the package going live.



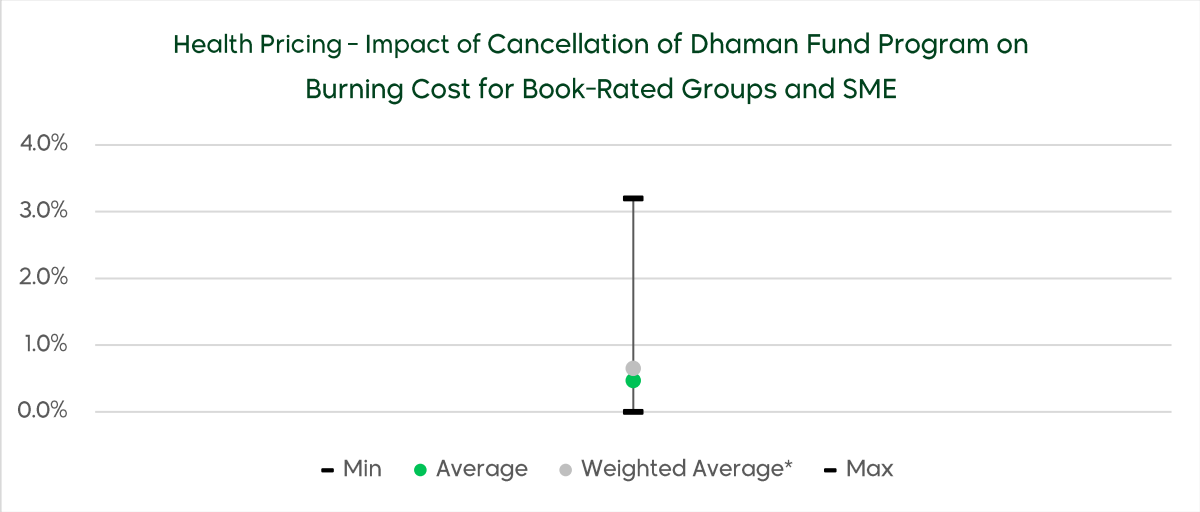
*The weighted average values in the graph use total gross written premium for year 2022 to 2025Q1 as the weights.

It can be observed above that, compared to previous years, both the interquartile range and the average values have significantly reduced, indicating almost no noticeable effect. This is not unexpected, given that there was more than two years of claims experience after the above change already built into a company's database when this pricing exercise was performed. Similar to other recent regulatory developments, it is essential for the appointed actuaries to closely monitor emerging experience attributable to this amendment and adjust their technical pricing on a timely basis.

1.7.3 Dhaman Fund Program cancellation

The CHI regulations set the maximum coverage limit for all insured members at SAR 1 million following the EBP update in 2022. For SMEs, there was previously a support mechanism under the Dhaman Fund Program that provided financial assistance for claims exceeding SAR 500,000, which served to lower the cost of insurance coverage for SME policies. However, the IA Circular No. 304, issued on 3 March 2025, announced the cancellation of this program, effectively removing the support for high-cost cases. It is important to note that the maximum coverage limit itself remains unchanged; only the supplementary financial support mechanism has been withdrawn, implying that. insurers are now fully responsible for the portion of claims exceeding SAR 500,000.

The graph below shows the estimated average increase in burning cost in 2025 as determined by the appointed actuaries, reflecting the impact of the Dhaman Fund Program cancellation.



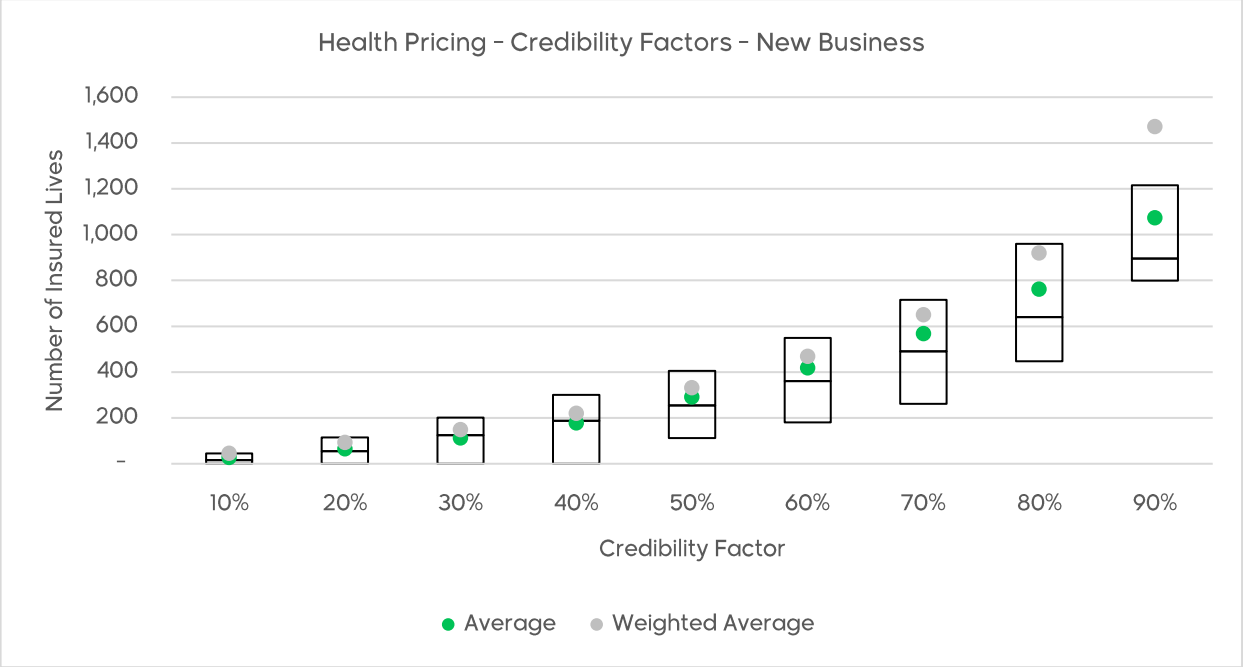
*The weighted average values in the graph use total gross written premium for year 2024 as the weights.

The average expected impact appears limited, though there is at least one insurance company assuming a significantly higher impact than the average. **The IA expects companies to closely monitor any pricing impacts arising from the discontinuation of the Dhaman Fund and adjust their prices in a timely manner.**

1.8 Credibility Factors

In Actuarial Science, Credibility Theory guides an actuary on the extent of reliance to place on a policyholder's own claims experience vs. the claims experience of the overall insured population. A common measure used is the number of claims, such that the greater the number of claims, the higher is the credibility assigned to own experience of a policyholder. The number of insured lives is a commonly used proxy by actuaries in place of the number of claims.

The graph below shows the range of the number of insured lives for new policies, used as the basis by the appointed actuaries, for assigning a given credibility factor.



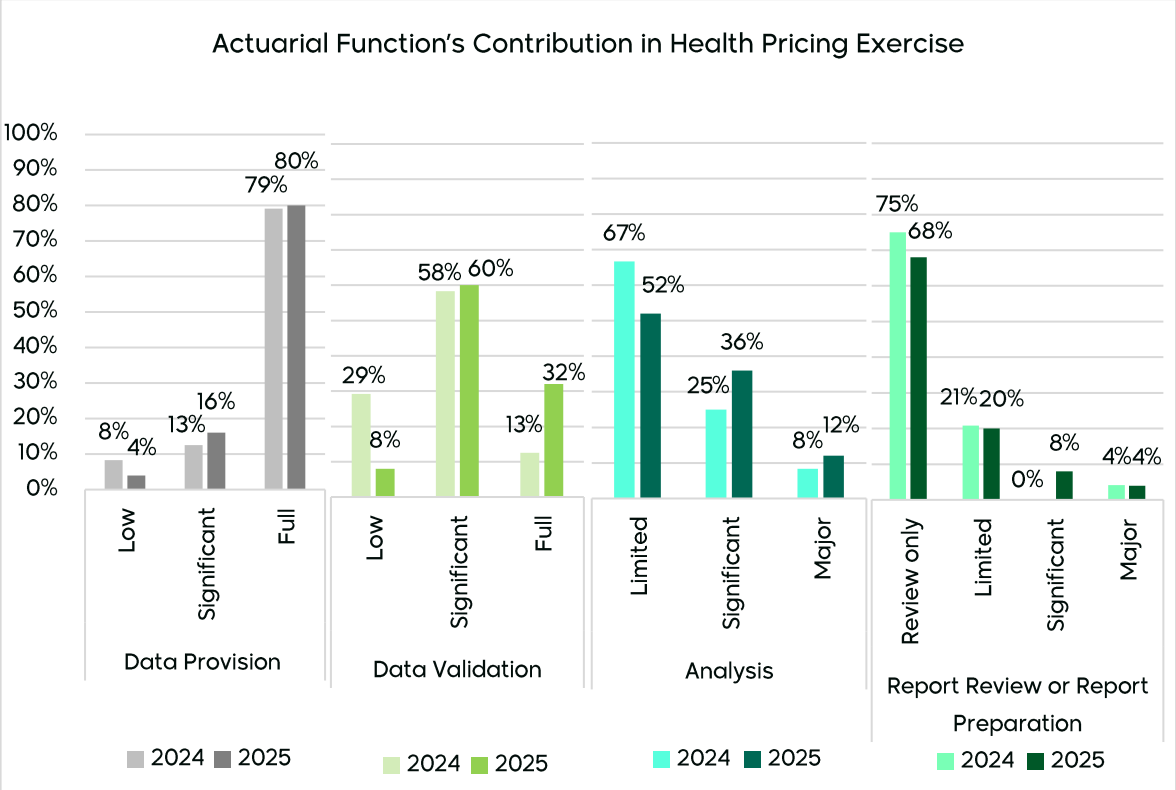
*The weighted average values in the graph use total gross written premium for year 2022 to 2025Q1 as the weights.

It can be seen that, for both the simple average and weighted average number of insured lives, values are similar at the lower levels of credibility. The difference however grows as the credibility factor increases (e.g., c. 1,473 vs 1,075 lives at 90% credibility factor on weighted average and simple average bases respectively), indicating higher dispersion among insurance companies at higher credibility factors.

The actuarial literature provides adequate guidance on assigning appropriate credibility to the past experience, which is supplemented by the Appointed Actuary's judgement. Inadequate technical rigor in this area can cause the insurance company's premium to be inadequate or non-competitive.

1.10 Actuarial Function's Contribution

The graph below shows the contribution of the actuarial functions of insurance companies at each of the four major steps involved in preparing the Health Pricing Report, namely, data provision, data validation, analysis, and report preparation & review and compares it with the Health Pricing Report prepared last year.



The graph shows varying levels of responsibility and contribution at each step. For Data Provision and Data Validation steps, the majority of internal actuarial functions have either taken full or significant responsibility. However, for the core Analysis part, the extent of contribution remains limited for the majority of internal actuarial functions, though we note that around one-half of internal actuarial functions have deemed to play either a significant or a major role in producing the analysis. Importantly, the extent of contribution deemed 'significant' or 'major' has improved noticeably this year.

Likewise, as regards documenting the analysis and preparing the Actuarial Pricing Report, the role of the majority of internal actuarial functions remained confined to reviewing the report prepared by their appointed actuaries, though we note that at least three internal actuarial functions reported to have played a major or significant role in report preparation, which is an improvement over last year

On an overall basis, while the low contribution at the analysis and reporting stages is not in line with the IA's expectations, particularly given that unlike in the past, now almost all internal actuarial functions are headed/supported by

qualified fellow actuaries, we take note of the improvements in analysis and report preparation stages compared to last year, implying conscious efforts being made by some internal actuarial functions, and thus we encourage other internal actuarial functions to follow suit.

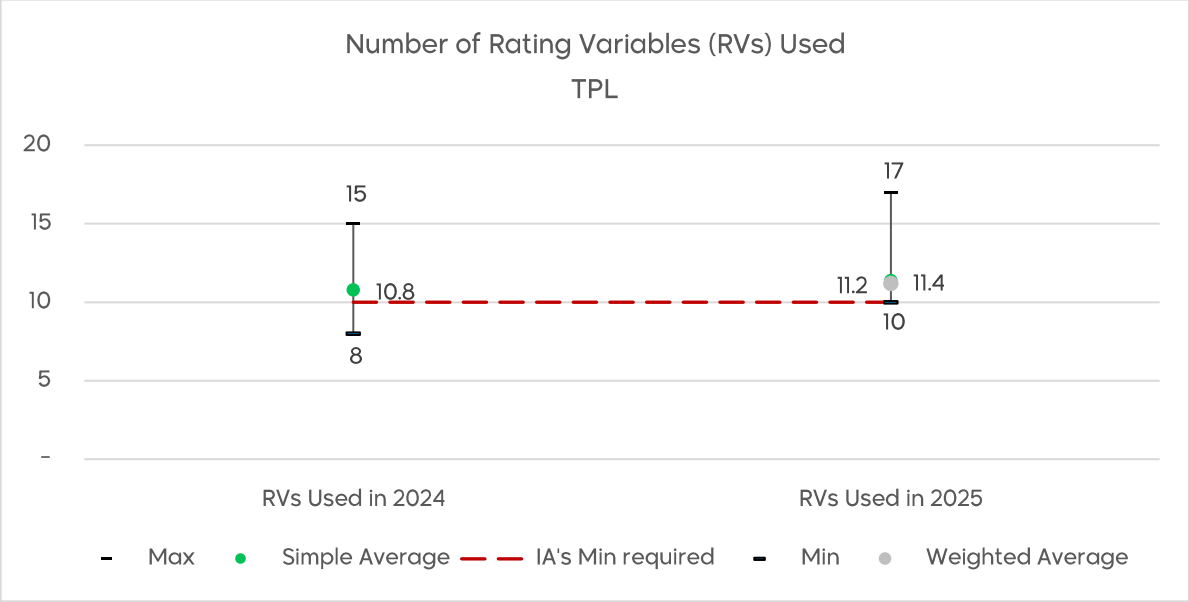
The IA expects the contribution of the Actuarial Function of each insurance company to continue to increase over time in all areas, such that the overall contribution in the entire pricing exercise is deemed significant. In particular, the IA expects to see all internal actuarial functions playing an active role in the Analysis step, followed by an increase in their role in preparing the actuarial pricing report. The Insurance Authority sees this active participation as an essential tool for the professional development of the internal actuarial function of the Company, in particular of actuarial candidates working within those actuarial functions.

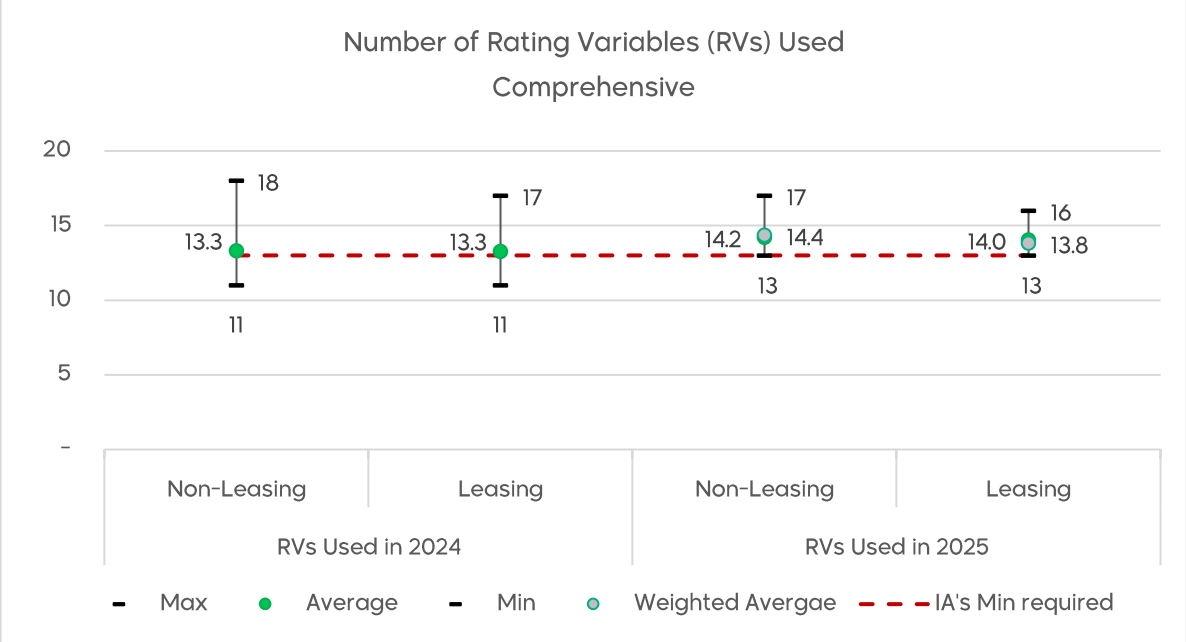
The IA expects the Company management to provide adequate resources (human and technological) to the internal actuarial function, thus enabling it to play a significant role in producing the above statutory report.

2. Actuarial Pricing Reports – Motor Insurance

2.1 Number of Rating Variables

The graphs below show the number of rating variables used by the appointed actuaries for deriving technical prices of Motor Third Party Liability (TPL) and Motor Comprehensive policies in 2025, also comparing it with the 2024 pricing basis.





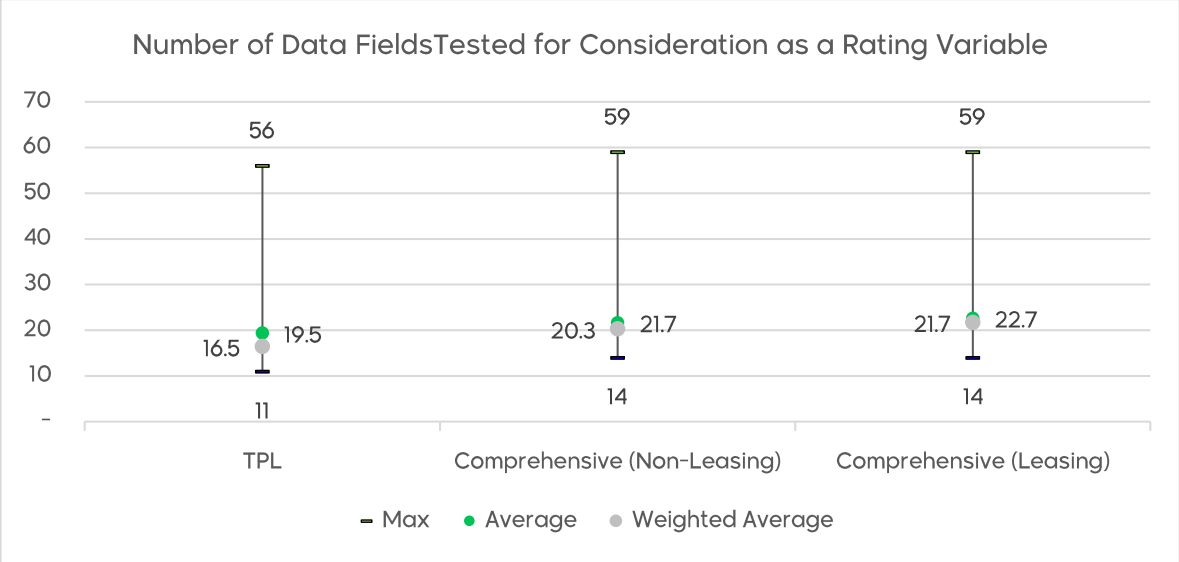
*The weighted average values in the graph use exposure (vehicle years) for year2024 as the weights.

It is evident from the above that, relative to the 2024 pricing exercise, the average number of rating variables have shown a small increase. Moreover, unlike in 2024, all companies now meet the regulatory requirement for using a minimum number of rating variables, which is expected to improve fairness and accuracy of pricing in general as well as indicates improvements in data availability and quality across the sector. These improvements demonstrate an overall advancement in pricing sophistication within the sector.

Moreover, the relatively significant differences between the average and maximum number of rating variables used imply that some companies are striving to differentiate themselves from their competitors, potentially increasing their pricing accuracy and, in turn, the profitability of the business underwritten. Conversely, the insurance companies towards the lower end of the range could be exposed to the risk of inaccurate pricing and, in turn, adverse results for their Motor portfolio.

The fact that the average number of rating variables used by insurance companies sits just above the minimum requirement cannot be seen as 'satisfactory', particularly given that the above minimums were set several years back in 2019.

In order to gain more insights into the efforts being made by several insurance companies to continually differentiate themselves from the competition, for the first time this year, the Insurance Authority asked insurance companies to report the number of data fields tested for consideration as a rating variable in their pricing basis. The graph below summarizes the statistics reported by insurance companies in this regard.



*The weighted average values in the graph use exposure (vehicle years) for year2024 as the weights.

On one hand, the graph above paints an encouraging picture of the efforts being made by several insurance companies to refine their pricing basis. On the other hand, the gap between the average and maximum number of data fields tested compared to those that get eventually used in technical pricing highlights a major issue around data quality. In this regard, the Insurance Authority is supporting the newly-constituted Actuarial Subcommittee by facilitating dialogue with major source(s) of data to explore ways to improve the availability and quality of data fields for consideration in actuarial pricing.

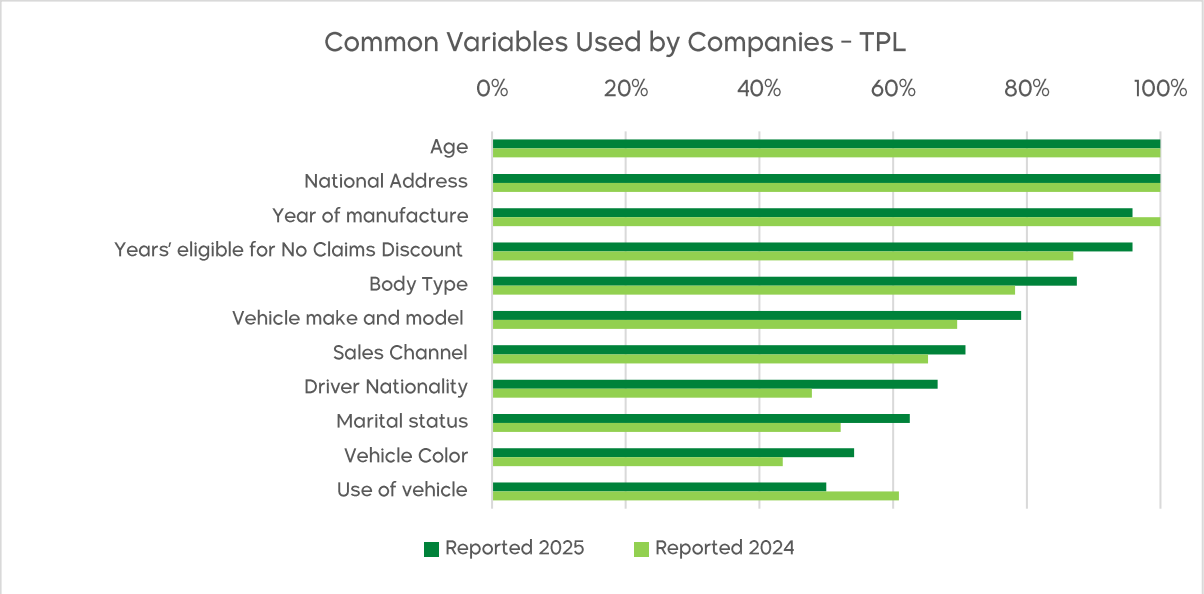
The IA expects all insurance companies to continue to strive to adopt additional rating variables well above the minimum specified by the IA in order to enhance their competitive advantage and implement more sophisticated pricing strategies.

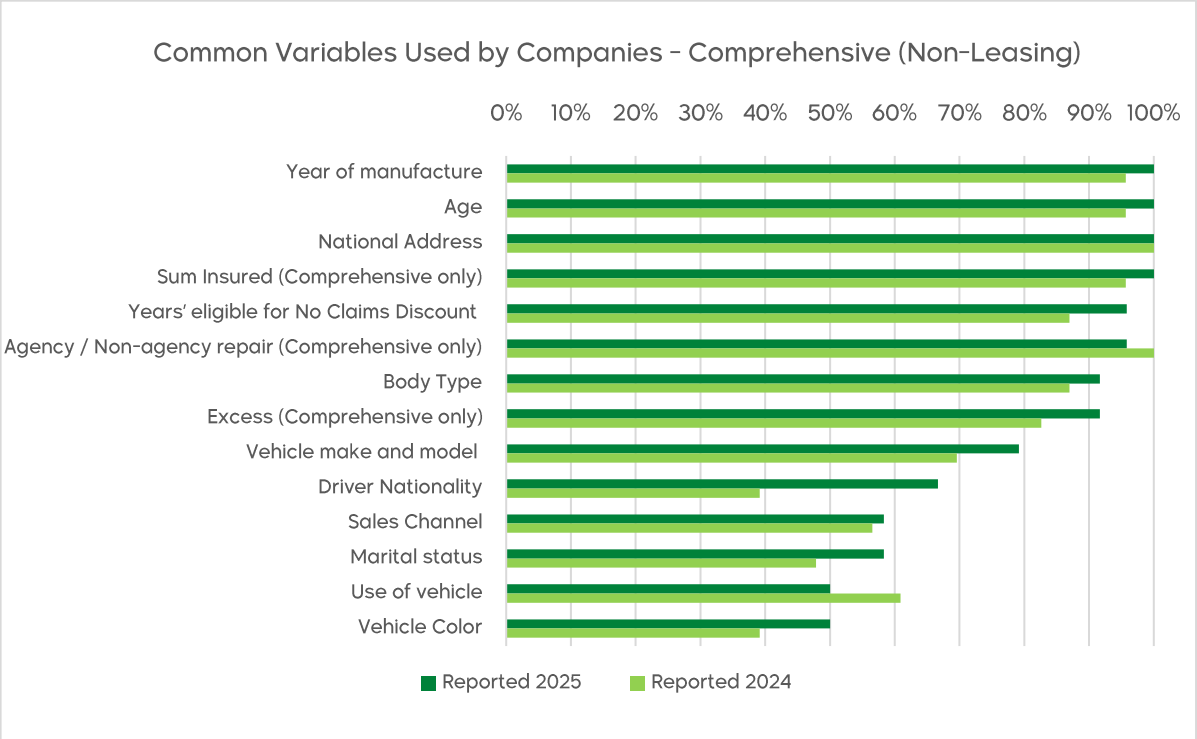
The IA expects Company management to ensure that efforts to identify and incorporate additional rating variables are made in a comprehensive manner, involving all relevant functions, including but not limited to Underwriting, Claims, IT, Actuarial Function, and the Appointed Actuary, and data for this purpose is captured in a reliable manner and/or obtained from reliable sources.

The IA expects the Actuarial Subcommittee to work actively with major data provider(s) in the sector and find ways to improve the availability and quality of data fields in order to improve the accuracy and fairness of actuarial pricing.

2.2 Propensity of Use of Individual Rating Variables

The following graphs illustrate the rating variables commonly used by insurance companies in their pricing models for Retail TPL and Retail Comprehensive (non-leasing) motor insurance. Due to confidentiality and the proprietary nature of less-frequently-used rating variables, the graph shows only those rating variables that are used by at least 50% of insurance companies and by at least 3 or more appointed actuaries.



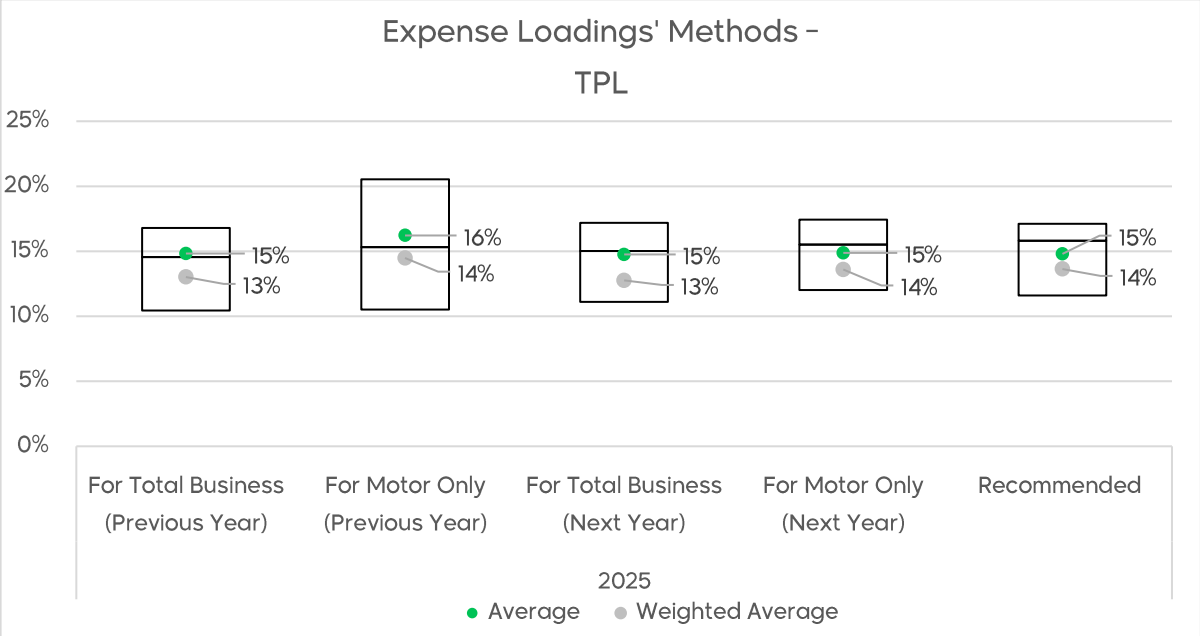


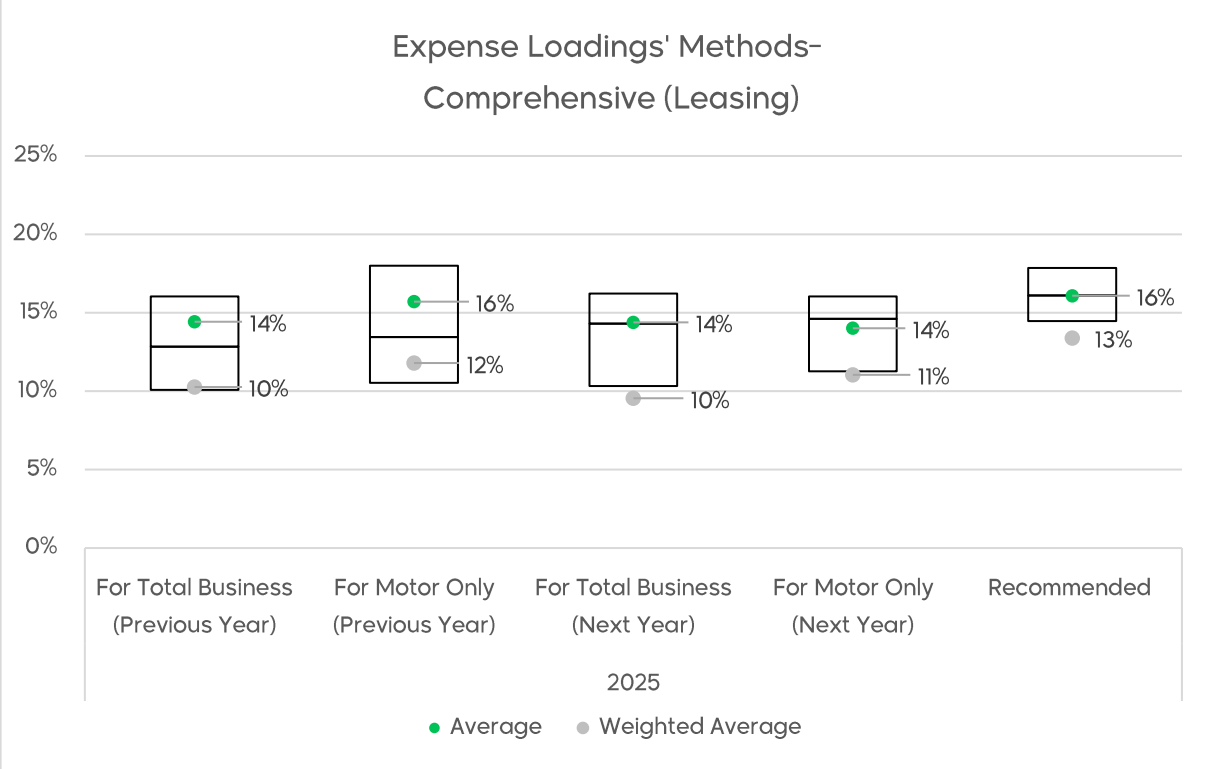
It can be observed that, for the most commonly-used rating variables shown in the above two graphs, the propensity of use has increased for the majority compared to the previous year. This progress serves to validate the purpose behind publishing these statistics for the first time in 2024 and indicates a continued evolution in insurers' pricing approaches, with many companies refining their use of rating variables.

The IA expects insurance companies and appointed actuaries who are still not utilizing the commonly used rating variables in their pricing models to actively consider whether and how to incorporate these variables in their pricing models going forward. This includes ensuring the availability and reliability of data necessary to support their effective use in the pricing process.

2.4 Expense Loadings (Excluding Commission)

For the purpose of determining the expense loading for inclusion in premium rates, an Appointed Actuary is required under the IA instructions to perform four sets of calculations, and select an appropriate expense loading considering the four results produced. The graphs below show the results of the above four calculations and their comparison with the selected expense loading, separately for Motor TPL and Motor Comprehensive.





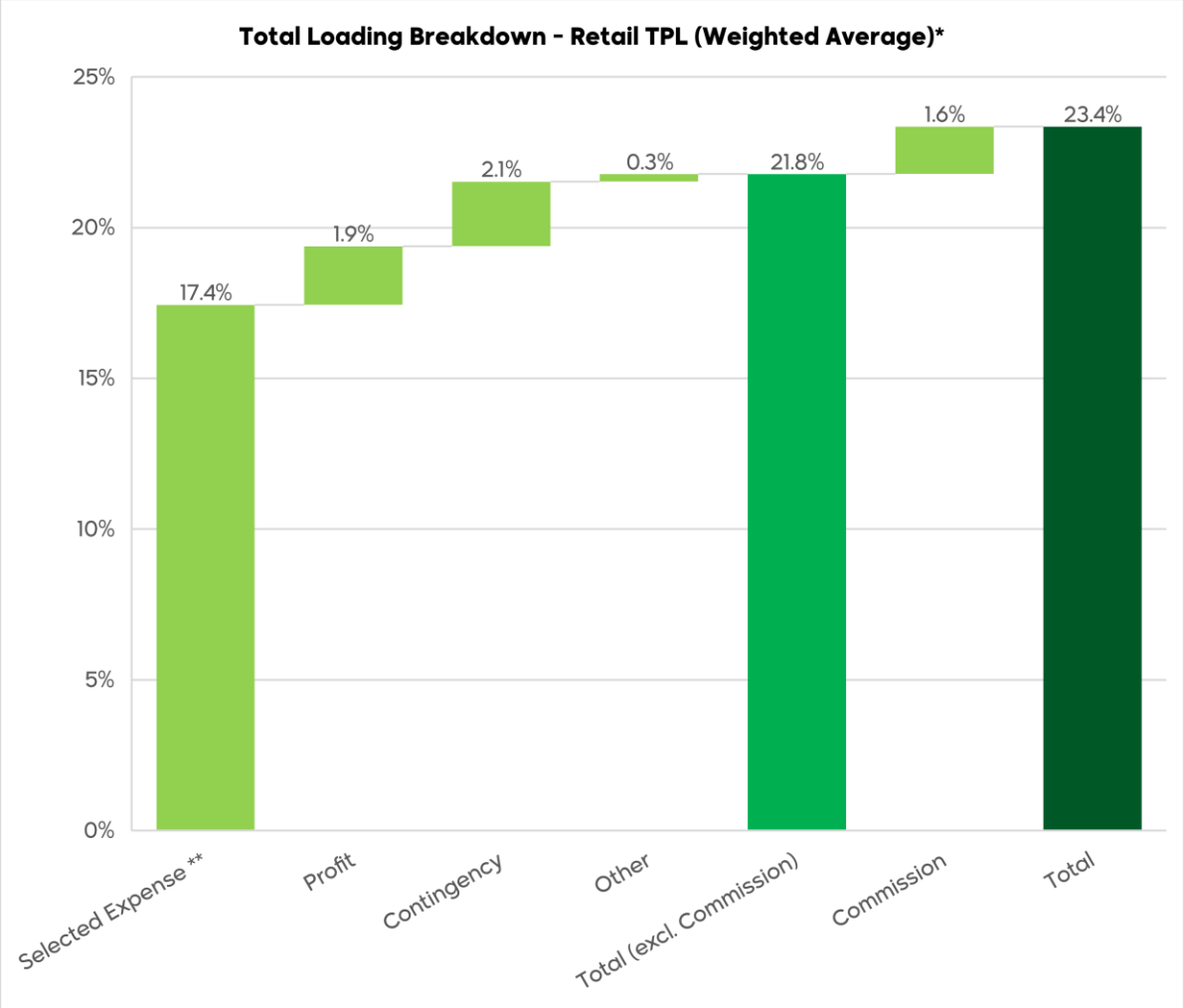
*The weighted average values in the graph use gross earned premium for year2024 as the weights.

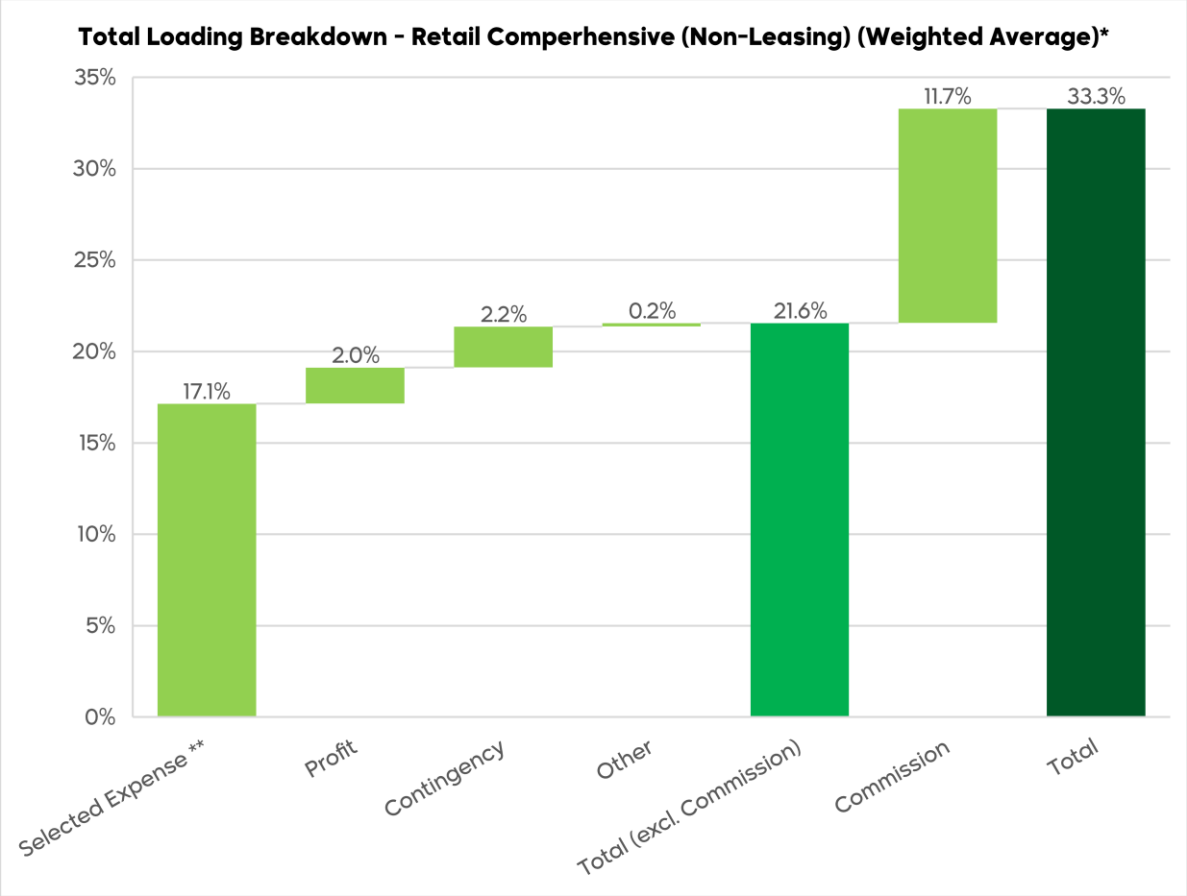
It is apparent from the above that, for Motor TPL, the appointed actuaries have relied more on the business plan expense ratios. For Motor Comprehensive however, both leasing and non-leasing, the appointed actuaries appear to

have placed greater reliance on last year's actual expense ratios, which appear higher than those in the business plan and may indicate some prudence. A reason cited by some companies for a lack of reliance on the next year's projected expense ratio was that those were still awaiting management's approval as part of the business planning process. In such cases, timely update of technical prices upon business plan approval will be essential.

2.5 Composition of Total Loading

The graphs below show the components of total loading, on a weighted average basis, included in the final technical premium.





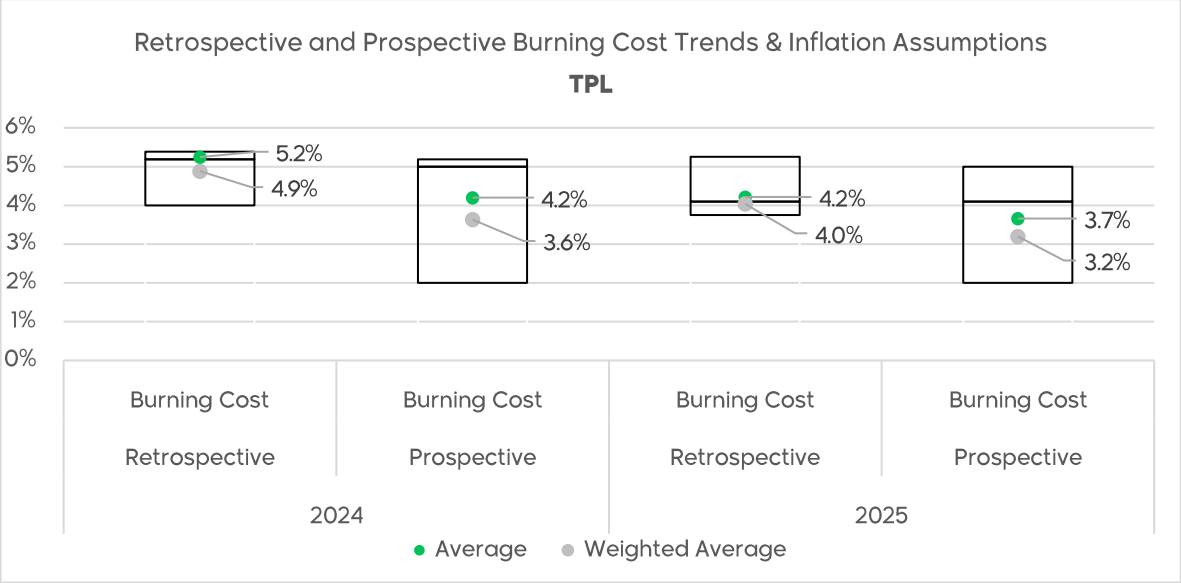
*The weighted average values in the graph use total earned premium for year2024 as the weights.

**For certain ICs, it is possible that offset from investment income is included either within selected expenses or within 'Other' category.

As expected, the largest component of the overall loading continues to be the Expense Loading for both TPL and Comprehensive products. Profit and contingency loadings remain broadly flat across the market for motor business. When commission is excluded, the expense loading for both TPL and Comprehensive follows a similar value, indicating that the underlying expense structure is largely consistent across both products.

2.5 Burning Cost Trend and Inflation

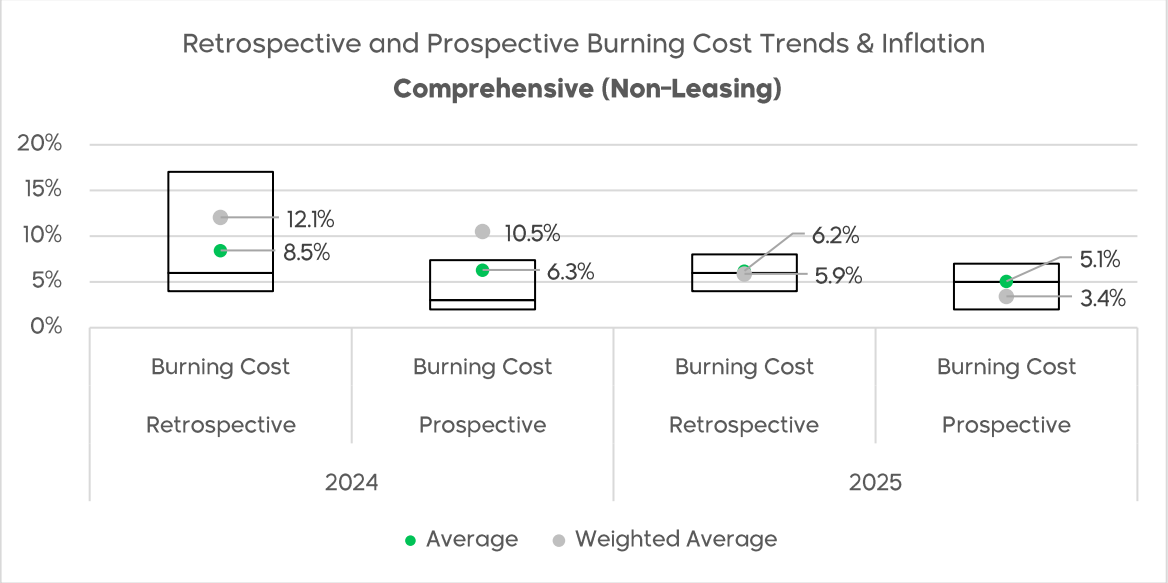
The graphs below show the trending assumptions applied by the appointed actuaries to the historical burning cost and to project it into the future to derive the technical premiums applicable going forward, also comparing with the assumptions used last year.

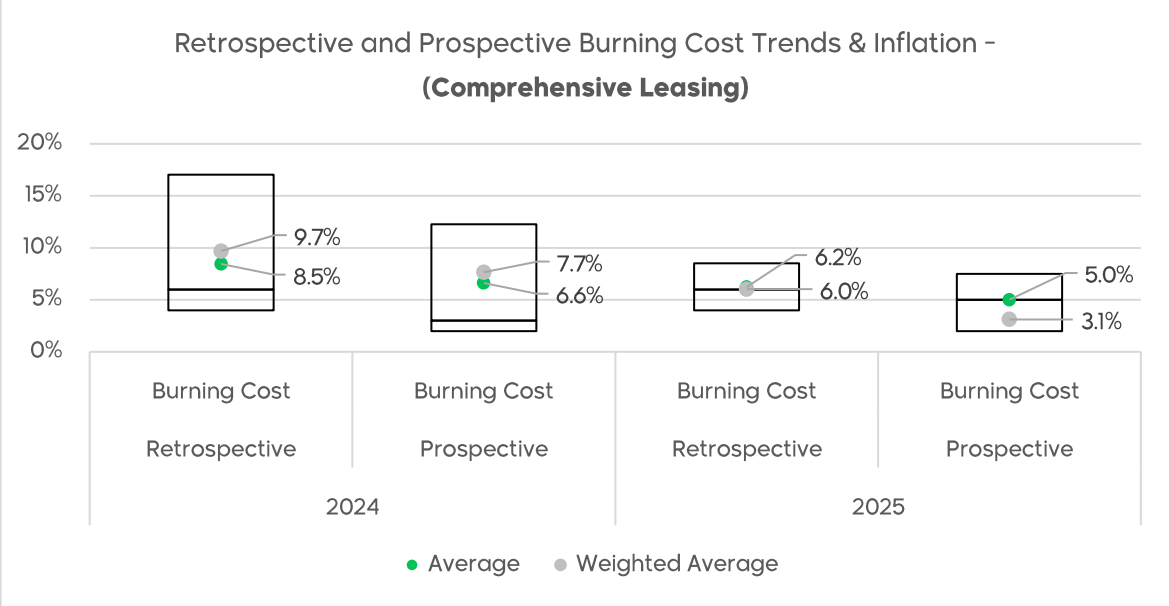


*The weighted average values in the graph use gross earned premium for year2024 as the weights.

For Retail TPL, both the retrospective and prospective trend/inflation assumptions (both simple and weighted averages) show small reductions compared to those used last year by the appointed actuaries. Between the retrospective and prospective assumptions, the latter has lower average values, implying some optimism in the assumptions going forward. With regards to the comparison between simple and weighted average values, the weighted average values for 2025 are lower, which is consistent with the observation last year, which can be attributed to the fact that larger companies tend to have better control over costs due to economies of scale.

The graphs below show similar trending assumptions used by the appointed actuaries in respect of Retail Comprehensive Leasing and Retail Comprehensive Non-leasing segments.





* The weighted average values in the graph use 2024 earned premium for pricing exercise 2024 and 2025.

Note: 2024 assumptions above relate either to those used in last year's pricing exercise or, if applicable, those updated since then

For Retail Comprehensive Non-Leasing, the average values, in particular the weighted average values for both the retrospective and prospective assumptions, have decreased noticeably compared to those used by the appointed actuaries last year. Moreover, the difference between the retrospective and prospective ranges of values is not as pronounced as observed last year. Regarding the comparison between simple and weighted average values, somewhat lower values are observed for the weighted average basis than for the simple average basis, in contrast to last year.

For Retail Comprehensive Leasing, similar observations can be made as for the non-Leasing segment. However, the reduction in weighted average values is less pronounced than seen for the non-Leasing segment. Interestingly, unlike last year, the simple and weighted average values used for Leasing and Non-Leasing segments are fully aligned this year.

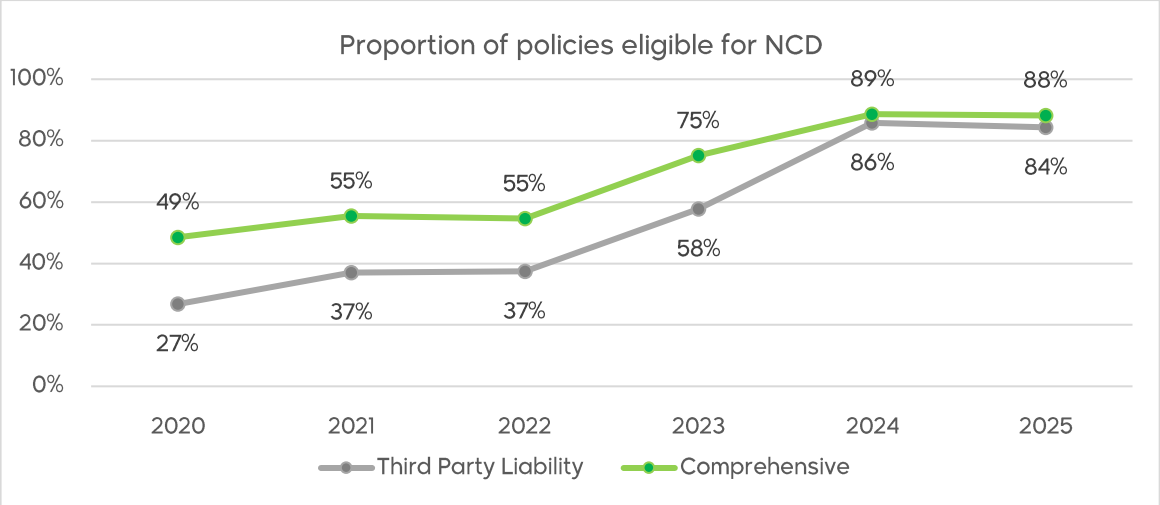
In the context of actuarial pricing, the above changes could be deemed significant, and for an individual insurance company, these can lead to material changes in technical premium rates from one year to the next.

The IA expects the appointed actuaries to support all material changes in assumptions with adequate justification and explain the impact of such material changes to senior management and relevant functions in sufficient detail.

2.6 No Claim Discount

The current 'No Claim Discount' (NCD) regime is in place since mid-2018, and refinements have been made in its implementation since its introduction in view of emerging experience and challenges as well as to meet strategic objectives.

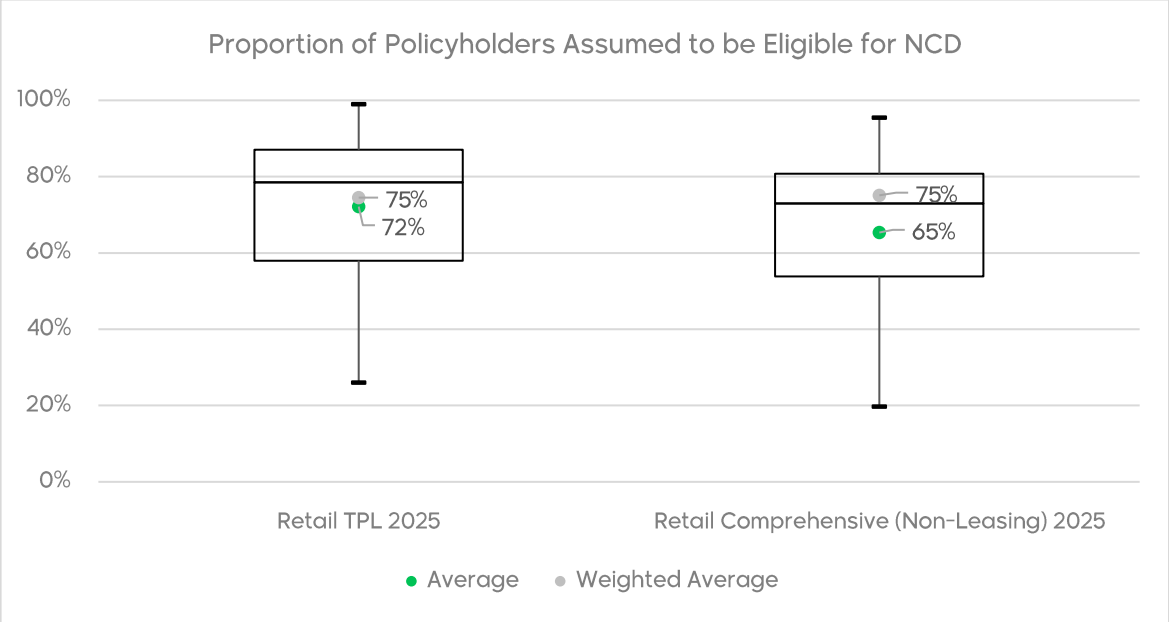
The graph below shows the proportion of policyholders who received the benefit of NCD over the last five years, based on data as at 2025Q3 provided by Najm.



Source: Najm statistics; 2025 data is up to the third quarter

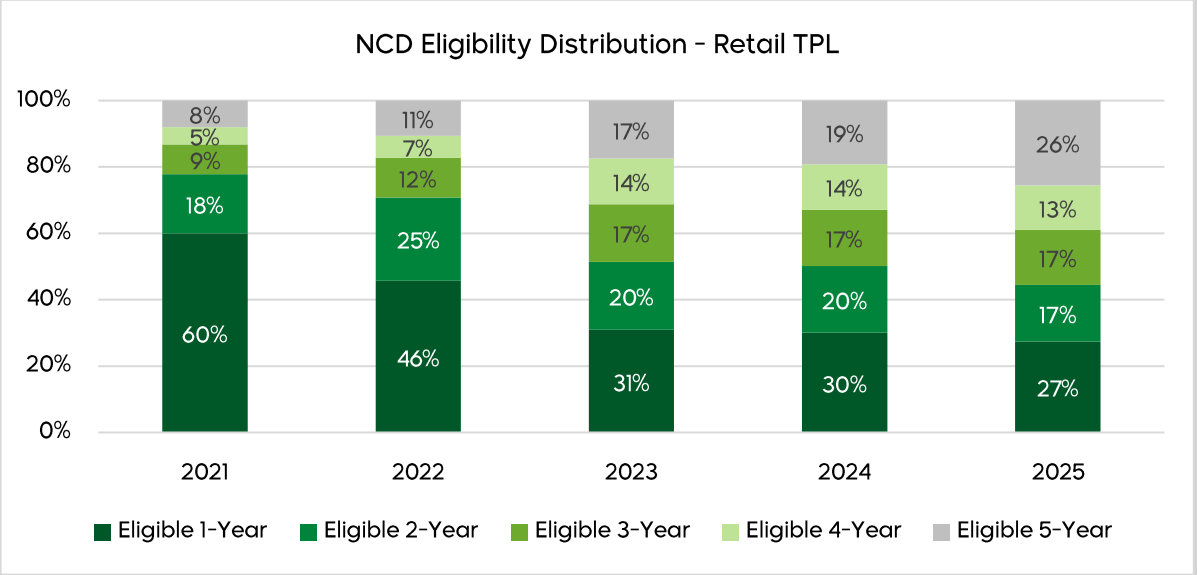
As observed over the years, NCD-eligibility for Motor Comprehensive policies had been markedly higher than Motor TPL; however, in 2024, the eligibility proportions reached a very similar level for both segments, which continued to be the case during 2025. The big shift over the last two years can be attributed mainly to the relaxation in NCD criteria in Q4 2023, which is now based largely on the claim's history of an insured only, whereas previously it also considered the renewal discipline of insurance coverage by the policyholder for all vehicles under his/her name.

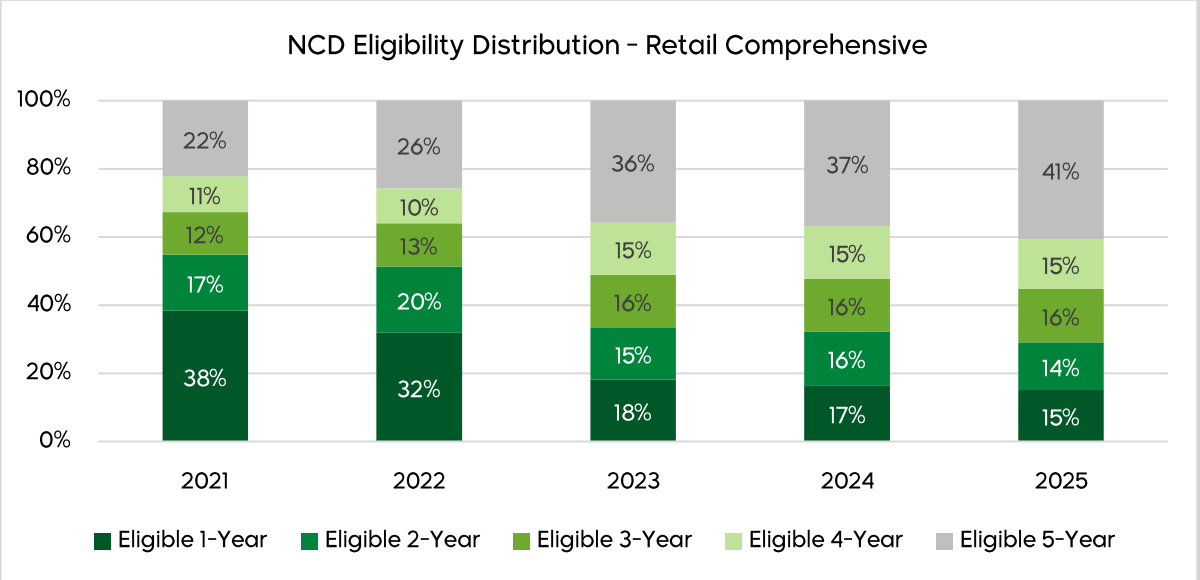
Compared to the actual NCD eligibility observed above, the graph below presents the distribution of NCD eligibility assumption used by the appointed actuaries as part of their pricing exercise in 2025.



Material differences can be observed between the actual and assumed average NCD-eligibility statistics. The difference between the actual and assumed NCD eligibility proportions—both in terms of simple and weighted averages—implies that the motor insurance sector as a whole is underestimating its NCD-eligibility assumption. In particular, insurance companies towards the lower end of the interquartile range shown above may need to validate and possibly update their assumptions on a priority basis.

Another important consideration in pricing is the proportion of drivers eligible for each level of NCD, i.e., from one year up to five years. The graphs below show the average eligibility proportion under each level, separately for Motor TPL and Motor Comprehensive policies based on Najm's statistics.





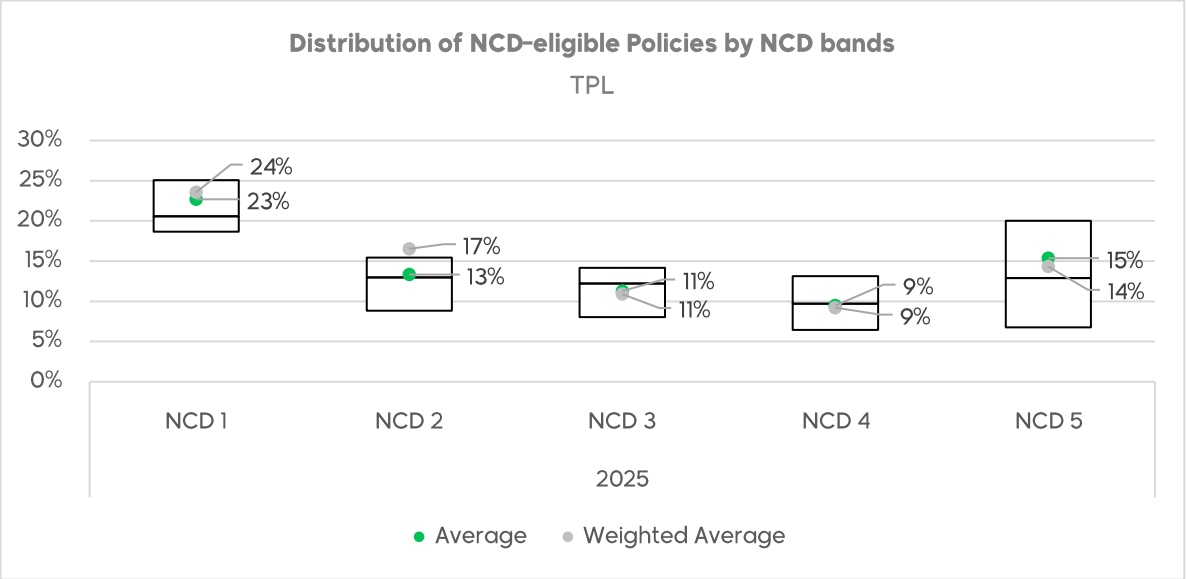
Source: Najm statistics; 2025 data is up to the third quarter

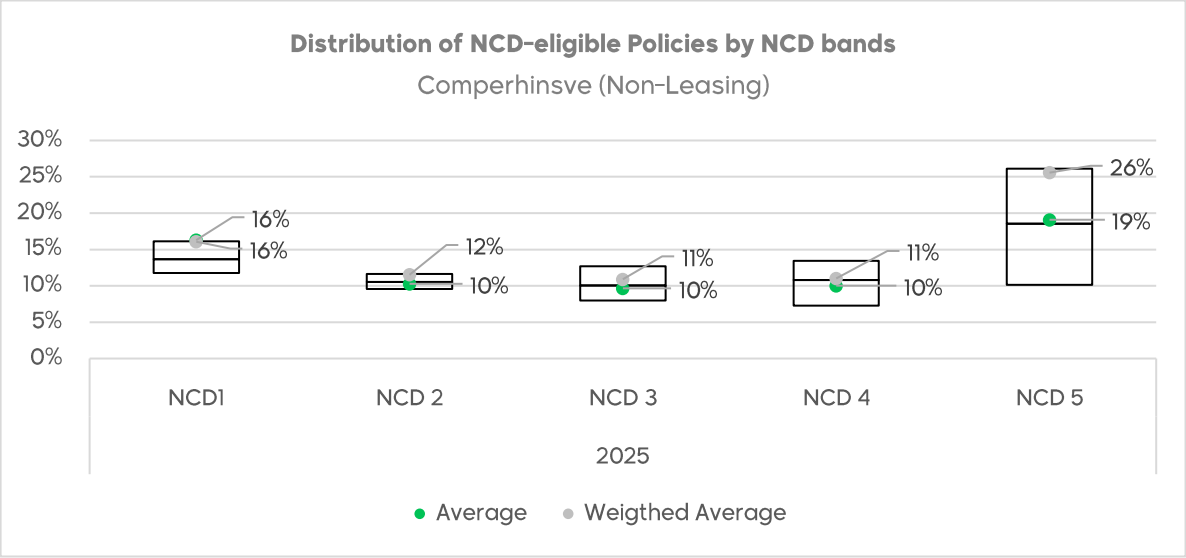
It is observed that for both, TPL and Comprehensive, the trend for proportions of people eligible for 'NCD bands 2 and above' has been increasing year on year, which is a desirable outcome and can be an important consideration for the purpose of assumption-setting by an Appointed Actuary. This may also indicate that drivers are keen to maintain a safe driving record, which is a positive trait and will likely result in a better driving environment and improved

road safety. Since 2023, for Retail Comprehensive, the proportion of the population with NCD5 has become the highest among the NCD-eligible population.

The above is likely to be partly influenced by the changes to the NCD rules in Q4 2023 mentioned above. The above trend highlights the need for the appointed actuaries to track these changes regularly and account for those in technical pricing and update the premium rates on a timely basis.

In comparison to the above, the graphs below show the assumptions used by the appointed actuaries as regards the distribution of NCD-eligible policies by various NCD bands.





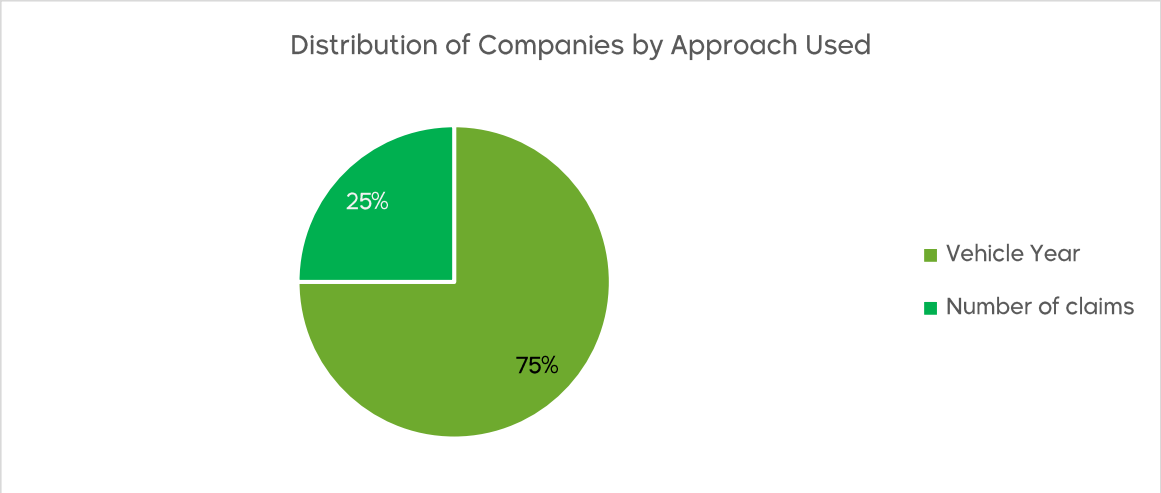
Difference between actual NCD distribution and assumed average distribution can be observed for both TPL and Comprehensive policies. The most obvious difference is in respect of the NCD5 band, where assumed proportions, both on simple and weighted average bases, are significantly lower than those observed in reality.

The IA expects the appointed actuaries to review their assumptions regarding the distribution of policies by various NCD bands, and where needed, make adequate adjustments in a timely manner.

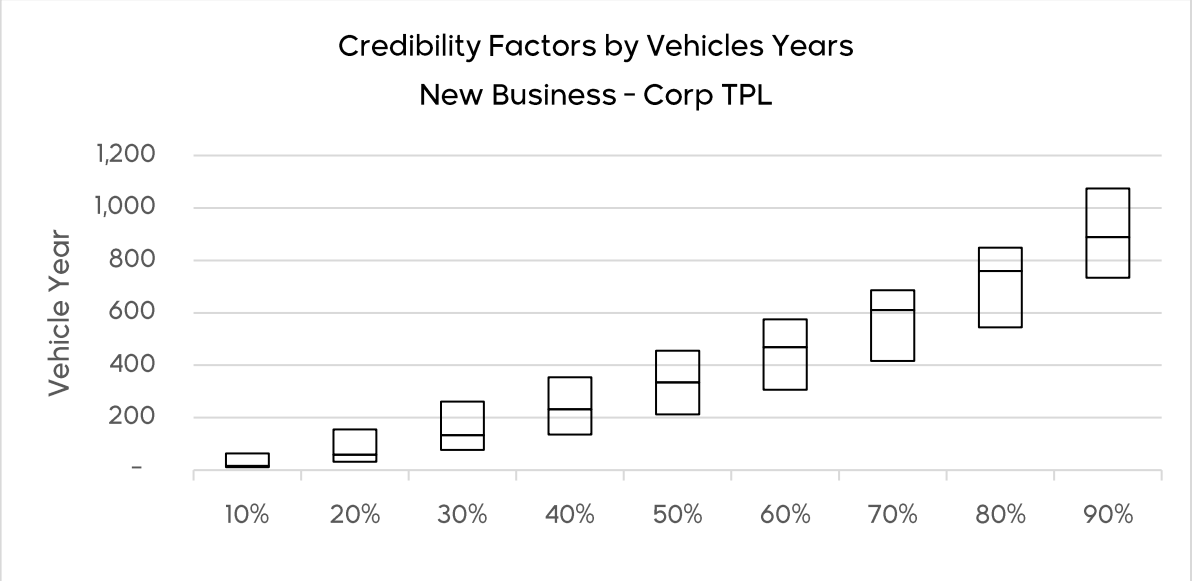
2.7 Credibility Factors

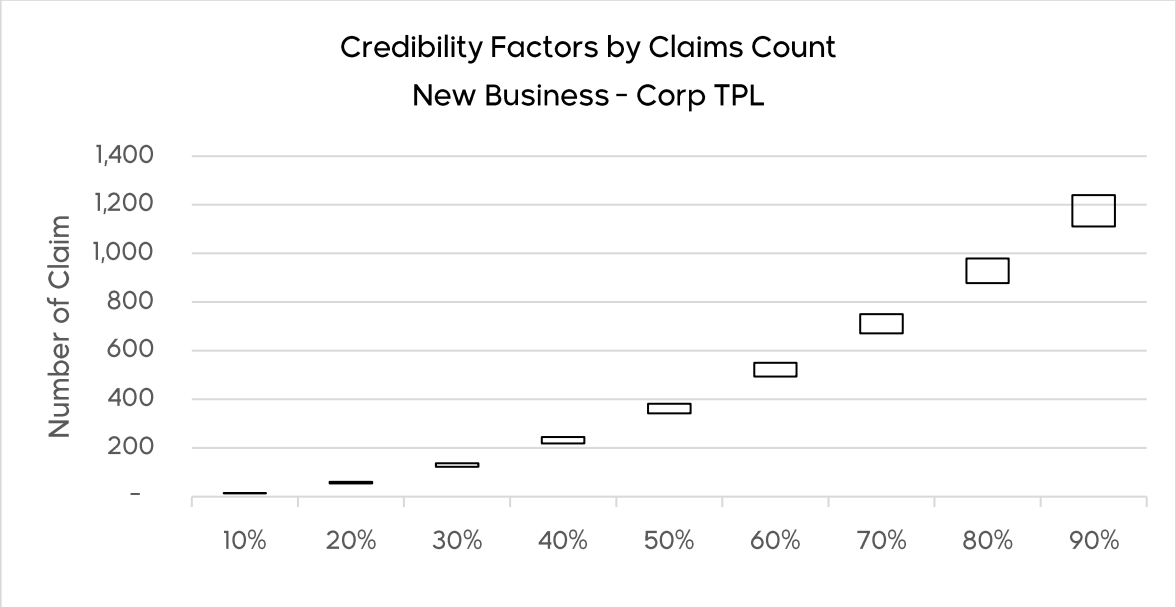
Credibility Theory provides a framework for determining the degree of reliance that should be placed on a policyholder's own claims experience as opposed to the collective experience of the wider insured population. In practice, credibility reflects the statistical confidence that can be assigned to a given set of experience data.

The graph below shows that 'Vehicle Year' is the most commonly used measure for assigning credibility to the past experience of a corporate policy.

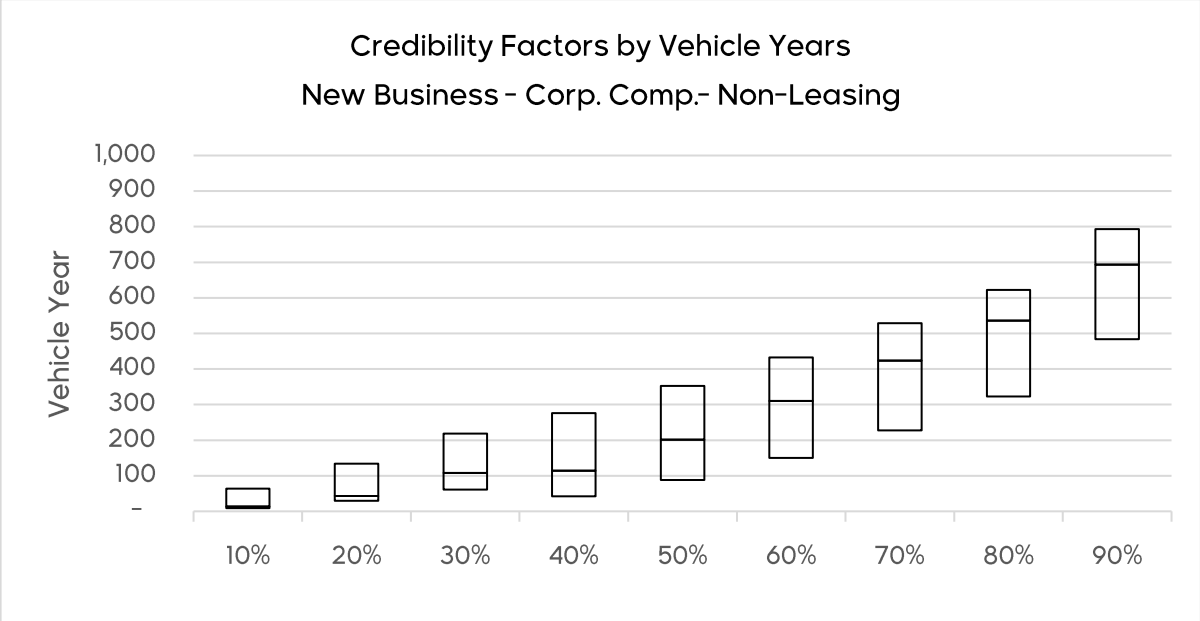


The graph below shows the range of the number of vehicles and claims count for new policies, used as the basis by the appointed actuaries, for assigning a given credibility factor.





Interestingly, for Corporate TPL, similar values of vehicles years and claims count can be observed for a given credibility value. This implies that those using claims count as the measure for determining credibility of claims experience would require significantly more vehicle years for a given credibility value than those appointed actuaries using vehicle years as the measure. The above methodology difference can lead to significantly different pricing outcomes for a given corporate policy.

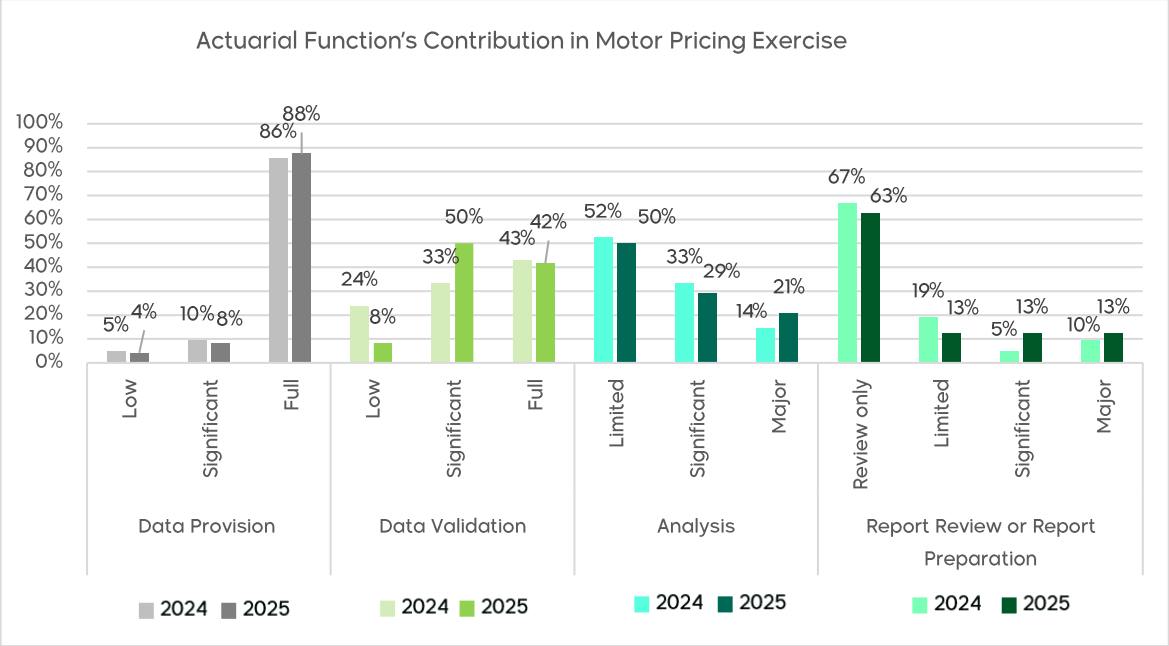


*The weighted average values in the graph use exposure for year2024 as the weights.

Between Corporate TPL and Corporate Comprehensive (non-leasing), in terms of vehicle years, higher credibility values appear to be assigned for Comprehensive policies for the same number of vehicles years than for TPL policies. This is likely due to the higher frequency of claims under Comprehensive policies.

2.8 Actuarial Function Contribution

The graph below shows the contribution of the actuarial functions of insurance companies at each of the four major steps involved in preparing the Motor Pricing Report, namely, data provision, data validation, analysis, and report preparation & review.



As observed in the health section, internal actuarial functions in the Motor section show strong involvement in the Data Provision and Data Validation stages, while their contribution to the analysis and reporting stages remains relatively limited, though improving.

Unlike at least three internal actuarial functions for the health pricing report, at least six internal actuarial functions reported a significant or major role in report preparation the Motor Pricing Report.

Overall, while the level of contribution at the analysis and reporting stages is still below IA expectations, the improvements observed across both sections indicate increasing engagement by internal actuarial functions.

The IA expects the contribution of the Actuarial Function of each insurance company to continue to increase over time in all areas, such that the overall contribution in the entire pricing exercise is deemed significant. In particular, the IA expects to see all internal actuarial functions playing an active role in the Analysis step, followed by an increase in their role in preparing the actuarial pricing report. The Insurance Authority sees this active participation as an essential tool for the professional development of the internal actuarial function of the Company, in particular of actuarial candidates working within those actuarial functions.

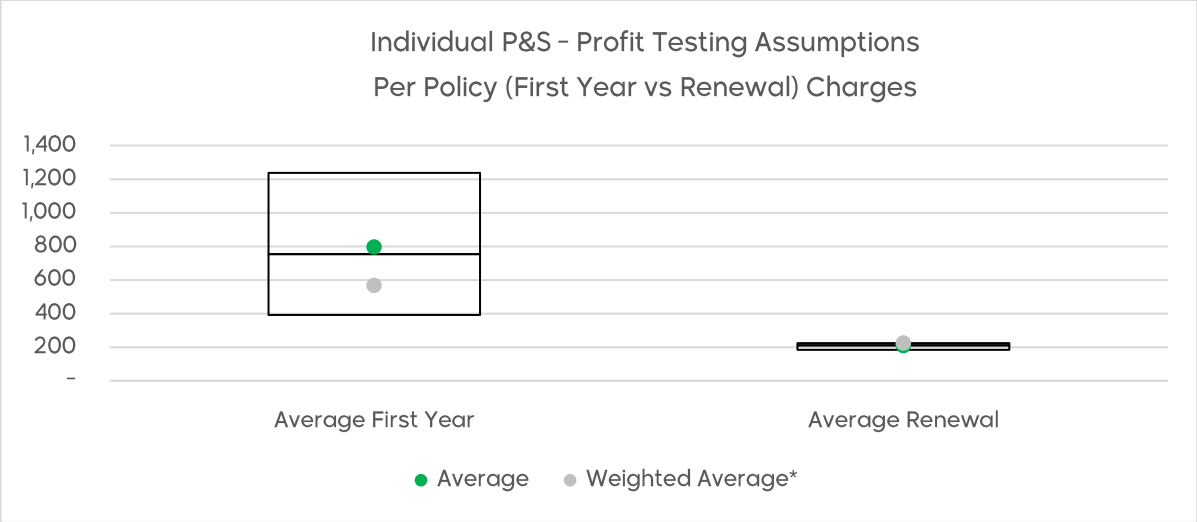
The IA expects the Company management to provide adequate resources (human and technological) to the internal actuarial function, thus enabling it to play a significant role in producing the above statutory report.

3. Actuarial Pricing Reports – Protection & Savings

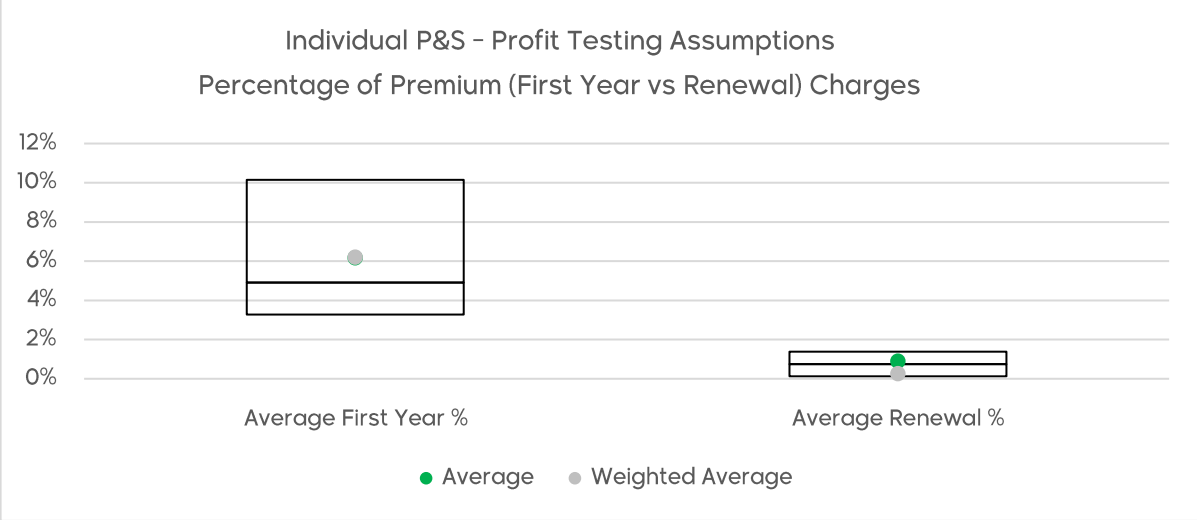
3.1 Individual P&S Insurance – Profit Testing Assumptions

One of the minimum requirements listed in Article 39 of the AWR relates to profit testing for Individual P&S products. This section covers the assumptions used by the appointed actuaries for the purpose of profit testing.

3.1.1 Expense Assumption (Excluding Commission)



* The weighted average values in the graph use total gross written premium for 2024 as the weights for the whole profit testing analysis.



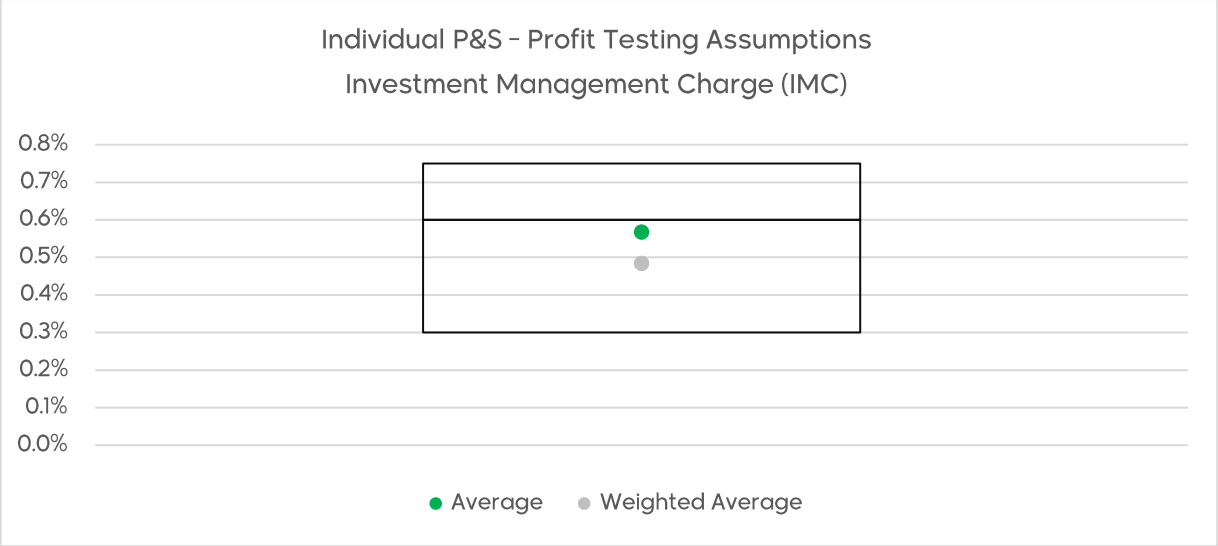
It can be observed from the interquartile ranges in the above graphs that expense assumptions during the first year vary significantly between insurance companies. However, a much narrower range can be observed for the renewal expenses assumed. This might be driven by volume differences

between insurance companies, with some having better economies of scale than others, and hence lower acquisition costs in the first year compared to others.

The IA expects each Appointed Actuary to keep monitoring the expense levels of the Company and reflect those in assumptions-setting adequately and in a timely manner.

3.1.2 Investment Management Charge

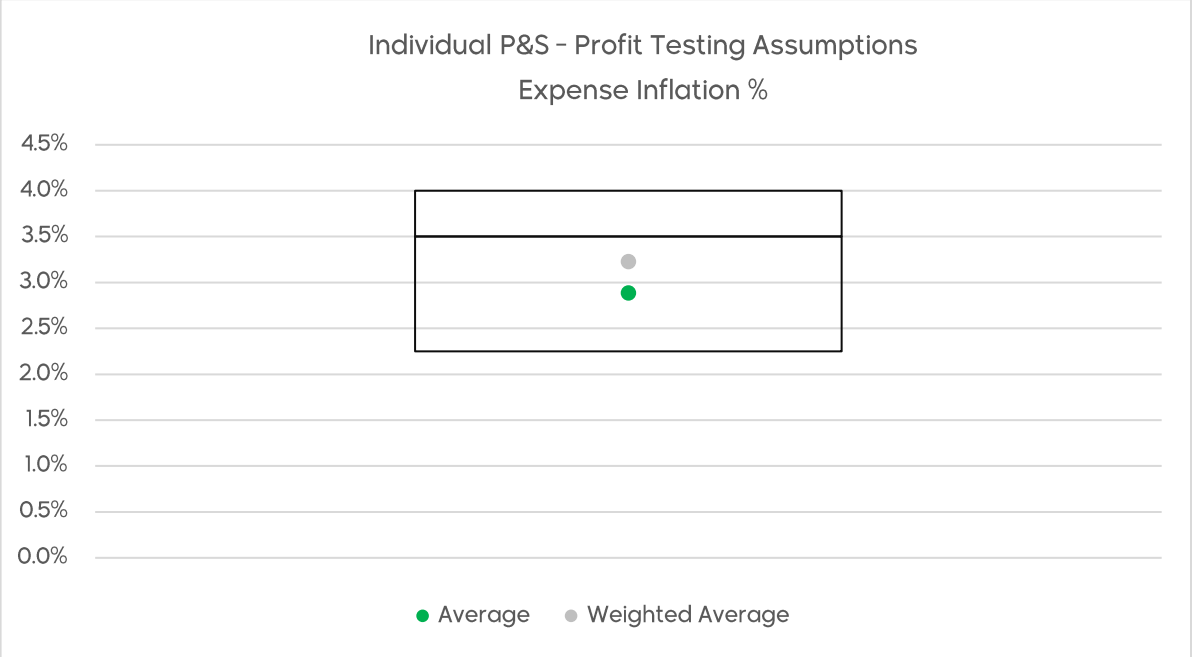
The graph below presents the Investment Management Charge as reported by the companies.



It can be observed from the above graph that the investment management charge assumption varies between insurance companies within a fairly narrow interquartile range, with the median being close to 0.6% of the fund value. Even small differences in investment management charge may influence the perceived attractiveness of the underlying insurance products for policyholders.

3.1.3 Expense Inflation

The graph below presents the expense inflation assumptions as reported by insurance companies.

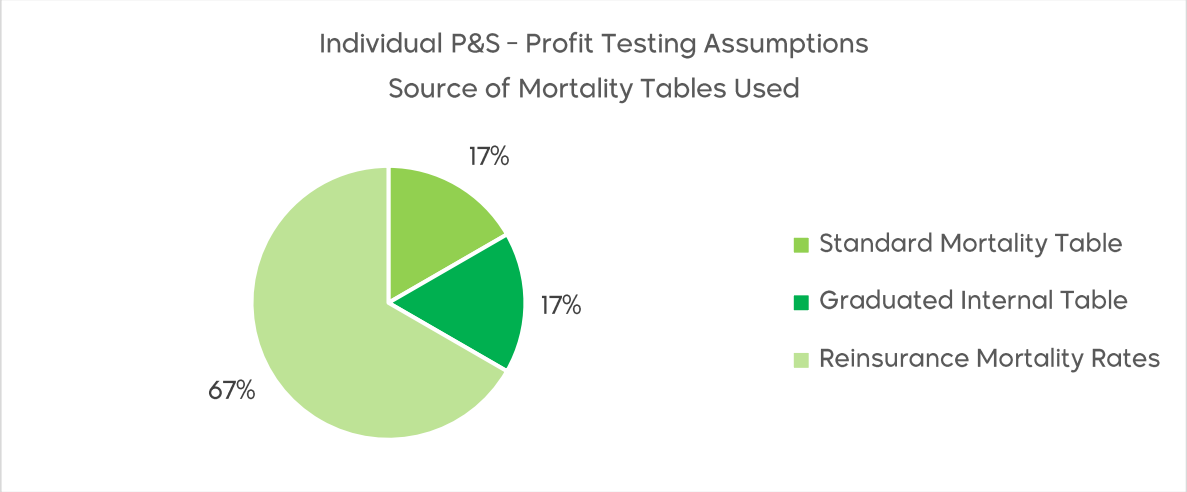


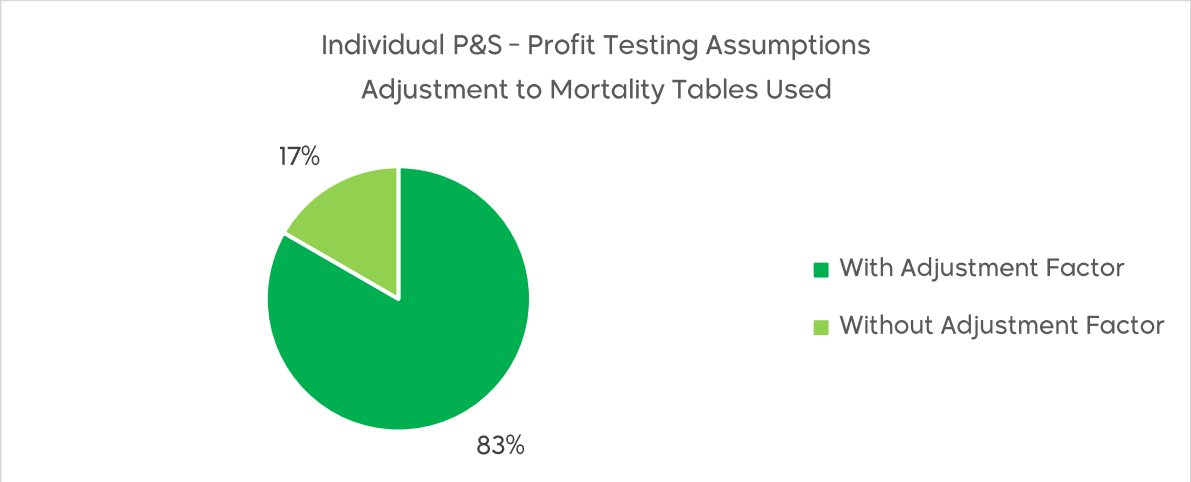
It can be observed from the above graph that there is a noticeable variation in the expense inflation assumptions across insurance companies.

The IA expects each Appointed Actuary to keep monitoring the inflation assumption being applied for its reasonableness. The Appointed Actuary is expected to support the assumption used with reference to reliable market indices and historical results of expense analysis performed for the Company.

3.1.4 Mortality Rate

The graphs below show the distribution of the sources of mortality tables used by insurance companies for individual P&S business and also highlight where an adjustment was made to the original mortality table obtained from a particular source.

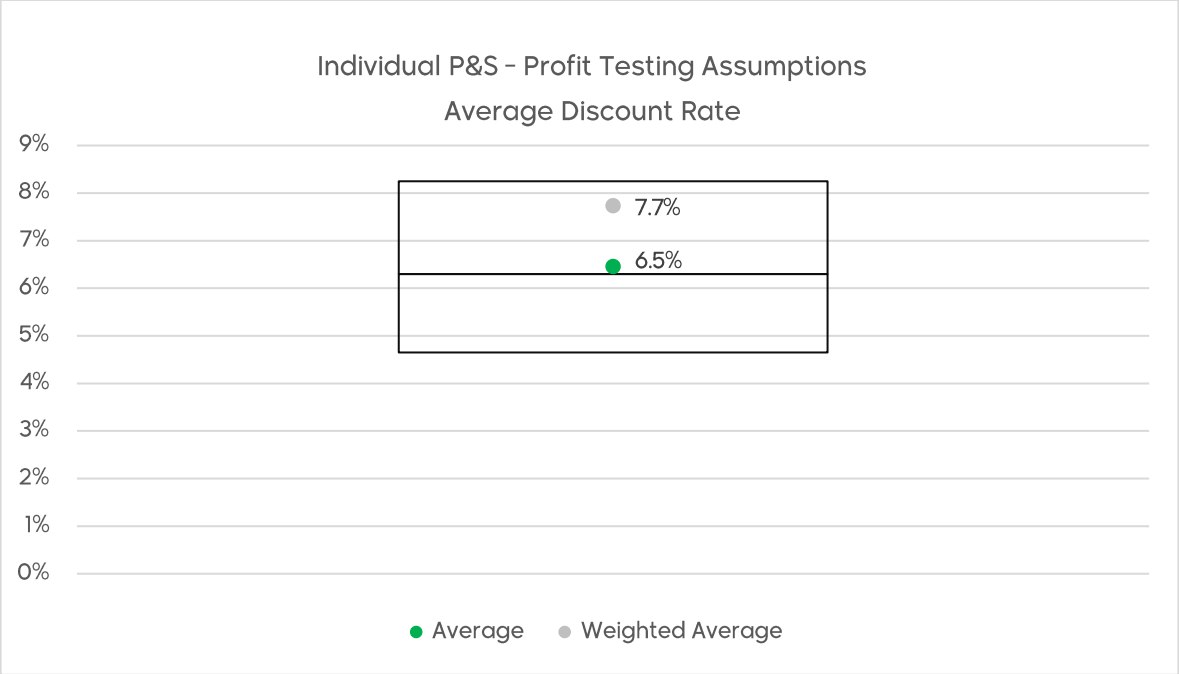




It can be observed that, in the absence of a local mortality table, 67% of insurance companies relied on reinsurers' inputs in this area, although majority of these companies made adjustments to those rates. Notably, this year there is greater diversity in the mortality tables used, with some companies applying the Standard Mortality Table and others using a Graduated Internal Table.

The IA expects each Appointed Actuary to continue to assess the appropriateness of mortality rates used, and make adjustments using expert judgement with due consideration of emerging experience.

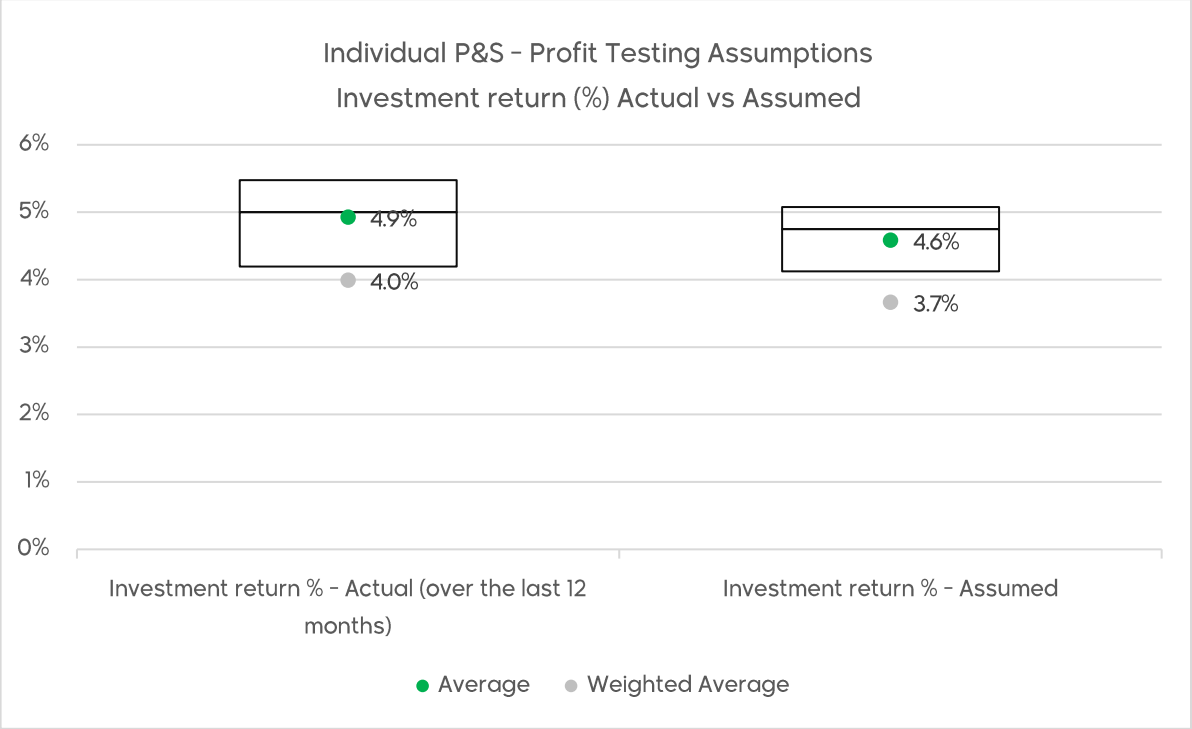
3.1.5 Discount Rate



It can be seen above that the discount rate assumption varies significantly between insurance companies. This is expected to affect the results of profit testing materially.

The IA expects each Appointed Actuary to apply due diligence with consideration of market conditions when selecting the discount rate for the purpose of profit testing and be able to justify his selection, including any changes to it year on year.

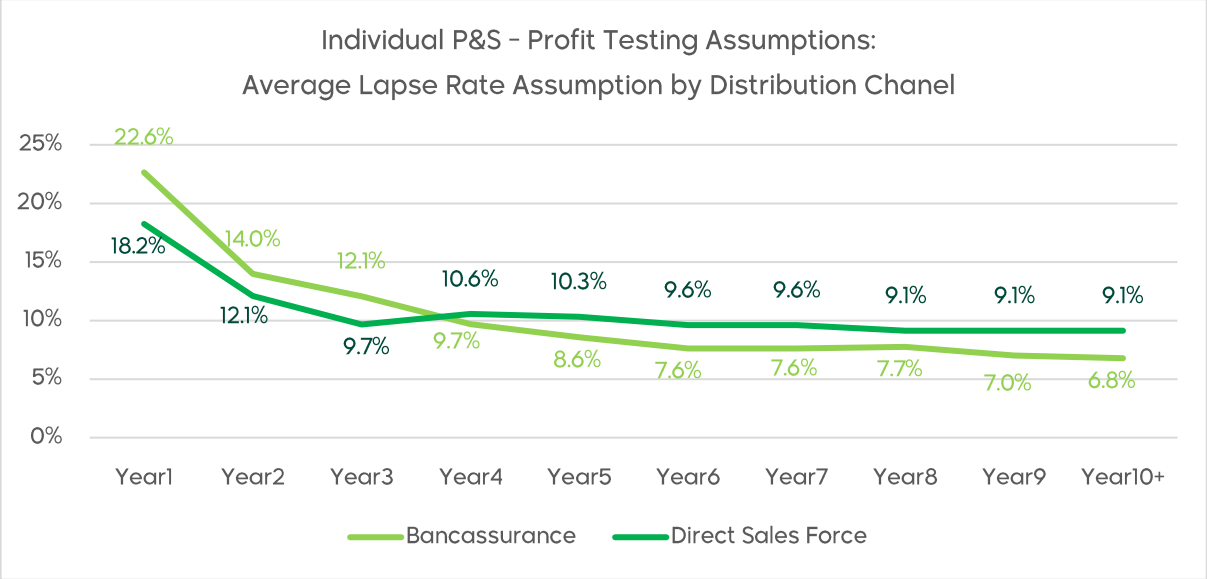
3.1.6 Investment Return



The chart above presents a comparison between the actual observed investment return over the past 12 months and expected investment return rates used in the profit testing for Individual Protection & Savings (P&S) products. The comparison implies some prudence in the assumed investment performance compared to the recent actual performance.

The IA expects each Appointed Actuary to be able to justify the investment return assumption used, including any changes to it, with due regard to the company's investment policy, the product offering, and the economic environment.

3.1.7 Lapse Rates

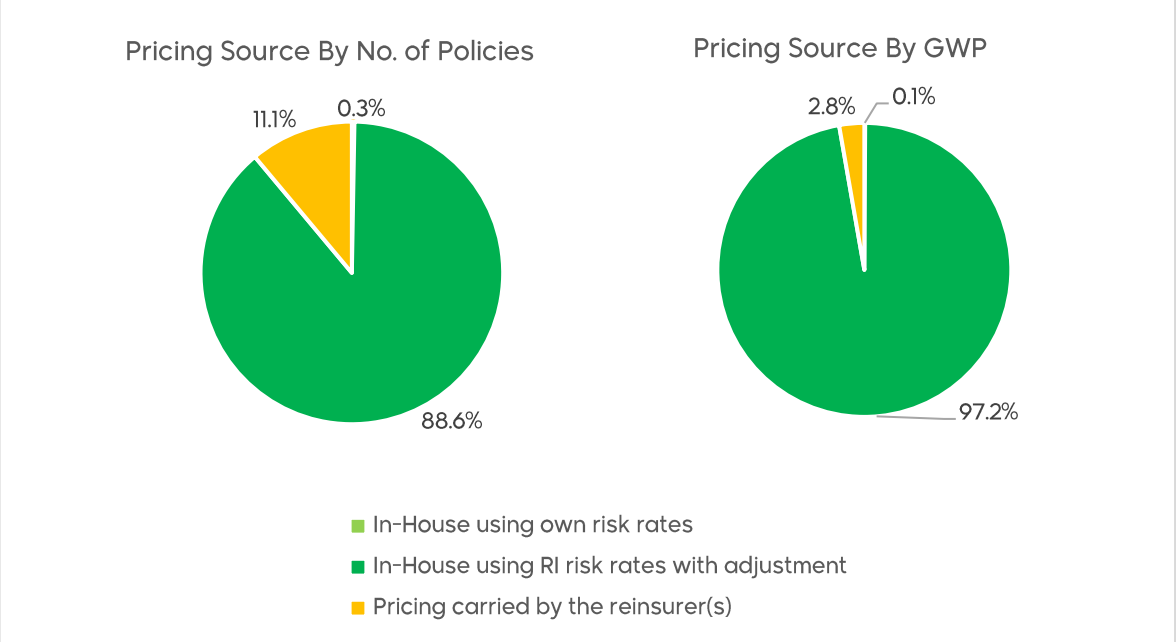


The graph above shows the yearly lapse assumptions for Individual P&S business by sales channel as a simple average of all P&S insurance companies. Unlike that observed in last year's DEAR CEO letter, it can be observed that in the first year, Direct Sales Force lapse rate assumption is markedly lower than that for Bancassurance. This changes by year 4 when lower lapse rates are assumed for the Bancassurance channel. The gap closes in subsequent years, with lapse rate assumption for the Bancassurance channel staying lower than that for the Direct Sales Force channel.

3.2 Group P&S Insurance

3.2.1 Pricing source for Group P&S over the last 12 months

The graph below shows the extent of reliance by insurance companies on external input, in the form of risk rates or pricing expertise, for the pricing of group P&S business. It shows the distribution by both the number of policies and the gross written premium (GWP).



The analysis indicates that the majority of the company's pricing activities rely on risk rates obtained from their reinsurers, albeit with some adjustment.

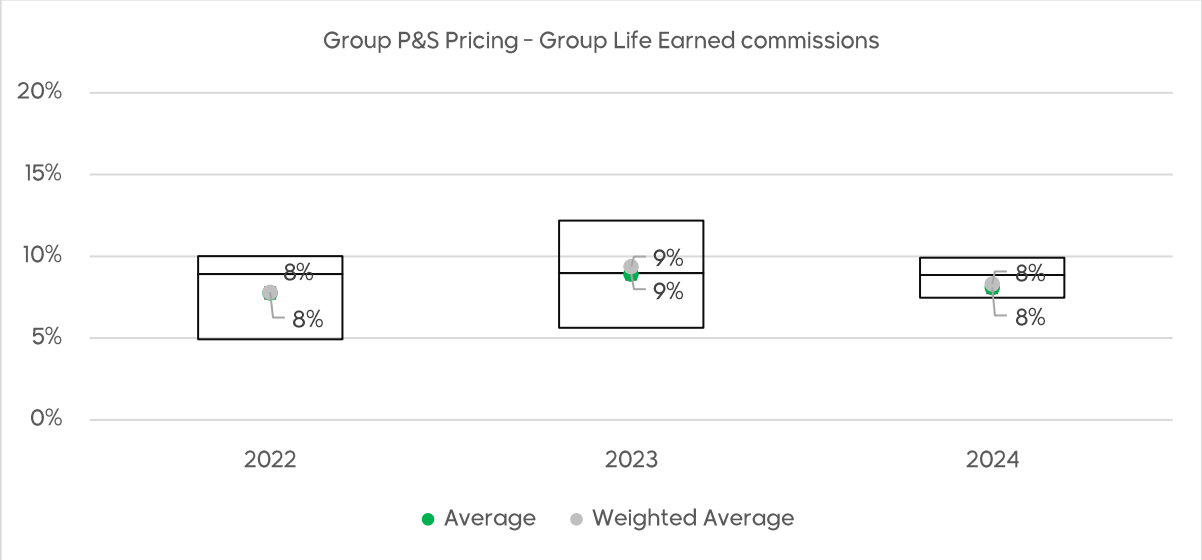
A limited portion of the portfolio is reported to be fully priced by the reinsurers, which is not in line with our expectations. Although insignificant in terms of the number of policies and premium share, it is worth mentioning that at least one insurance company has sought to fully absorb inhouse the pricing for group P&S business.

The IA expects all insurance companies to invest in developing their internal technical pricing capabilities by leveraging their own portfolio experience and deploying internal actuarial expertise, with due consideration of market benchmarks, where deemed appropriate.

3.2.2 Commission Ratio

The graphs below show the actual commission earned as a percentage of the earned premium for the last three years of group P&S portfolio, separately for Group Life and Group Credit Life, as reported in group P&S pricing reports for year 2025.

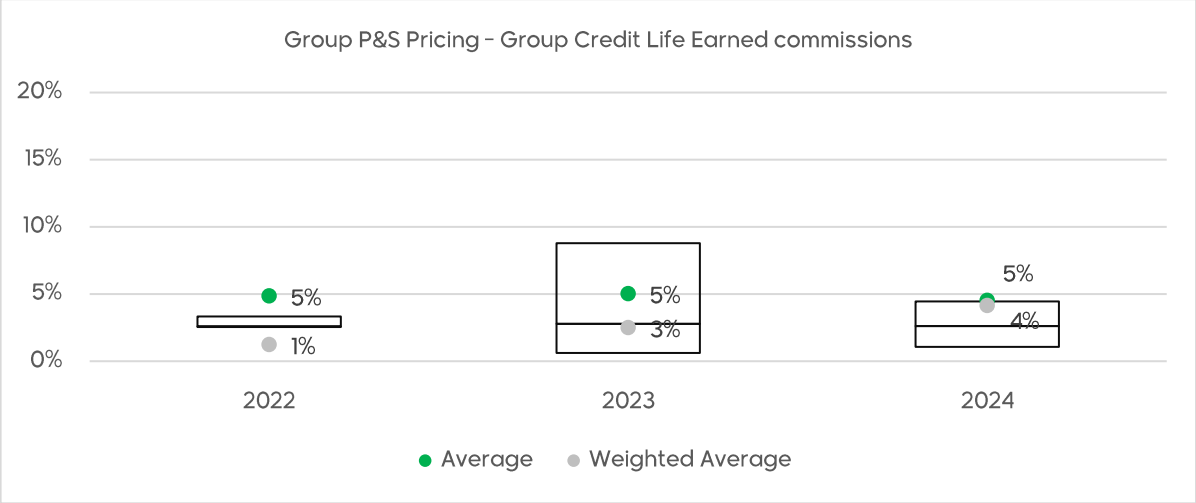
3.2.2.1 Group Life



*The weighted average values in the graph use gross written premium as the weights.

It can be observed that while the range of commission has varied somewhat from one year to the next, the average values (both simple and weighted) have remained relatively stable.

3.2.2.2 Group Credit Life

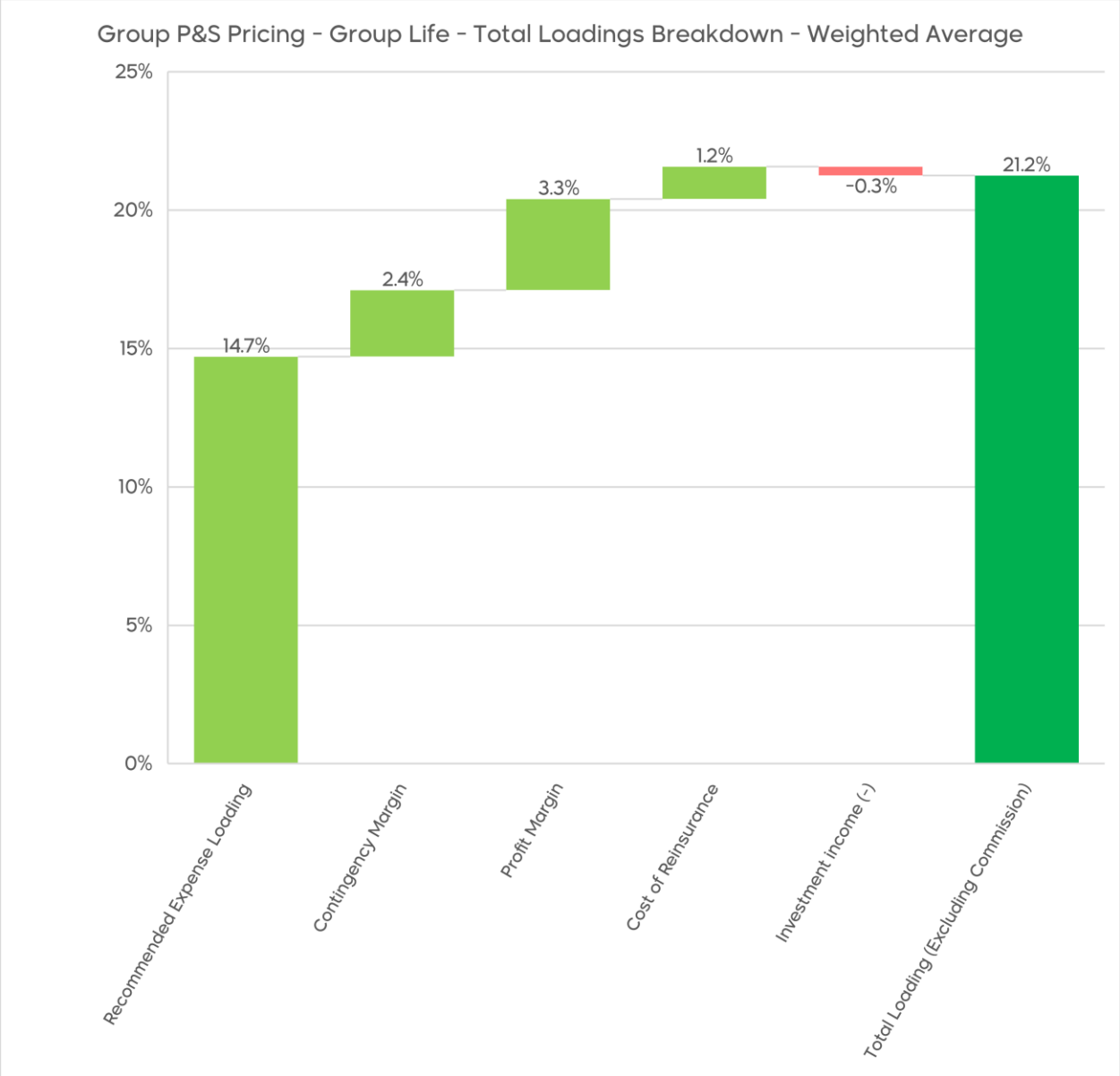


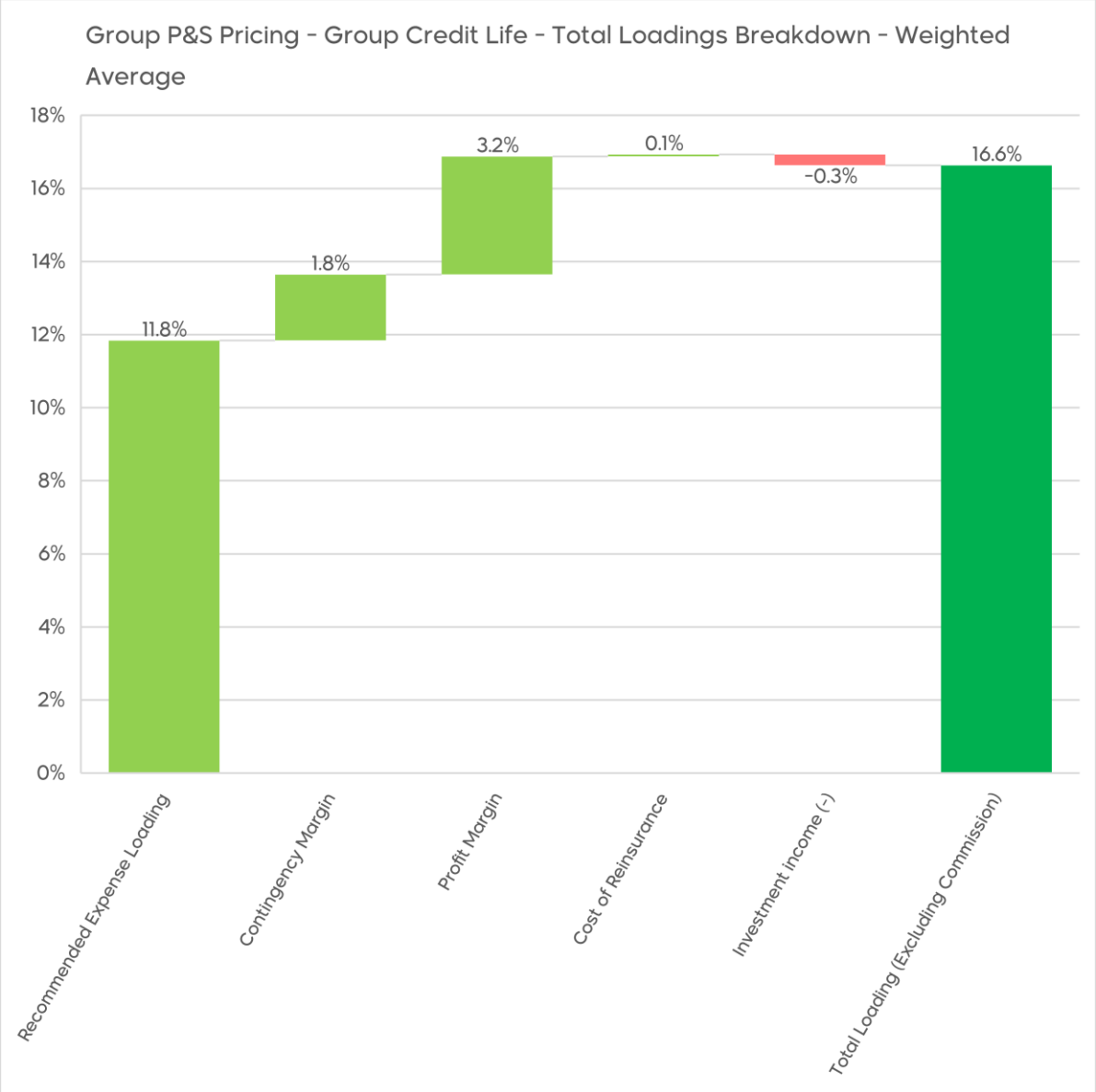
*The weighted average values in the graph use gross written premium as the weights.

Compared to that seen for group life in the previous section, the commission values for group credit life are generally lower. Moreover, noticeably lower weighted average commission ratios indicate that larger insurers are able to achieve lower commissions than smaller insurers, either through stronger negotiation power, more effective direct sales, or a combination of both thus helping them with maintaining lower overall prices and gaining a competitive advantage.

3.2.3 Composition of Total Loading (Excluding Commissions)

The graph below shows the components of total loading, on a weighted average basis, included in the final technical premium, excluding Tax and Zakat.


Group P&S Pricing - Group Life - Total Loadings Breakdown - Weighted Average
25%
20%
15%
10%
5%
0%
14.7%
2.4%
3.3%
1.2%
-0.3%
21.2%
Recommended Expense Loading
Contingency Margin
Profit Margin
Cost of Reinsurance
Investment income (-)
Total Loading (Excluding Commission)



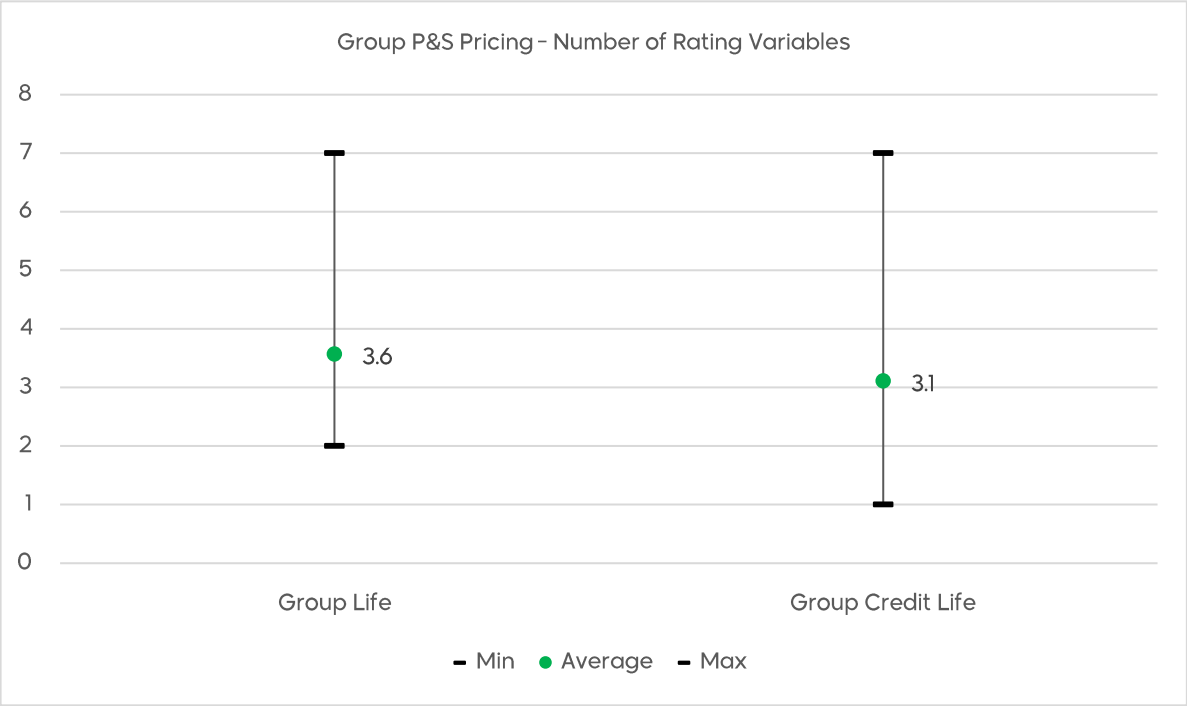
As expected, the largest component of the overall loading is the Expense Loading, whereas there is some offset due to the anticipated investment income.

It may be noted that the above graph is heavily influenced by larger underwriters, and the loading composition of smaller underwriters may be significantly different from the above, particularly the expense loading component. It may therefore serve as a useful benchmark for the smaller players, making them more cognizant of the competitive challenges facing them.

The IA expects the Appointed Actuary to closely monitor the above assumptions for loadings for Group Life and Group Credit Life business as experience emerges over time and update those in a timely manner, while considering the results of other analyses performed by the Appointed Actuary. For expense loading assumptions, alignment with the results of Experience Studies Report is expected to be considered. For contingency loading, an option for the Appointed Actuary could be to consider the appropriateness of aligning with the methodology of Risk Adjustment calculations performed for the purpose of actuarial reserving. Another possible approach could be to consider allocating the risk-based capital to each individual line of business and in turn to each policy, as we approach the transition to a risk-based capital framework effective 1st January 2027.

3.2.4 Number of Rating Variables

The IA encourages the appointed actuaries to continue to explore new rating variables with the objective of enhancing the pricing sophistication and accuracy in the Saudi insurance sector. The graph below shows the range of the count of rating variables used by insurance companies for pricing of Group P&S insurance policies in 2025 by product type.

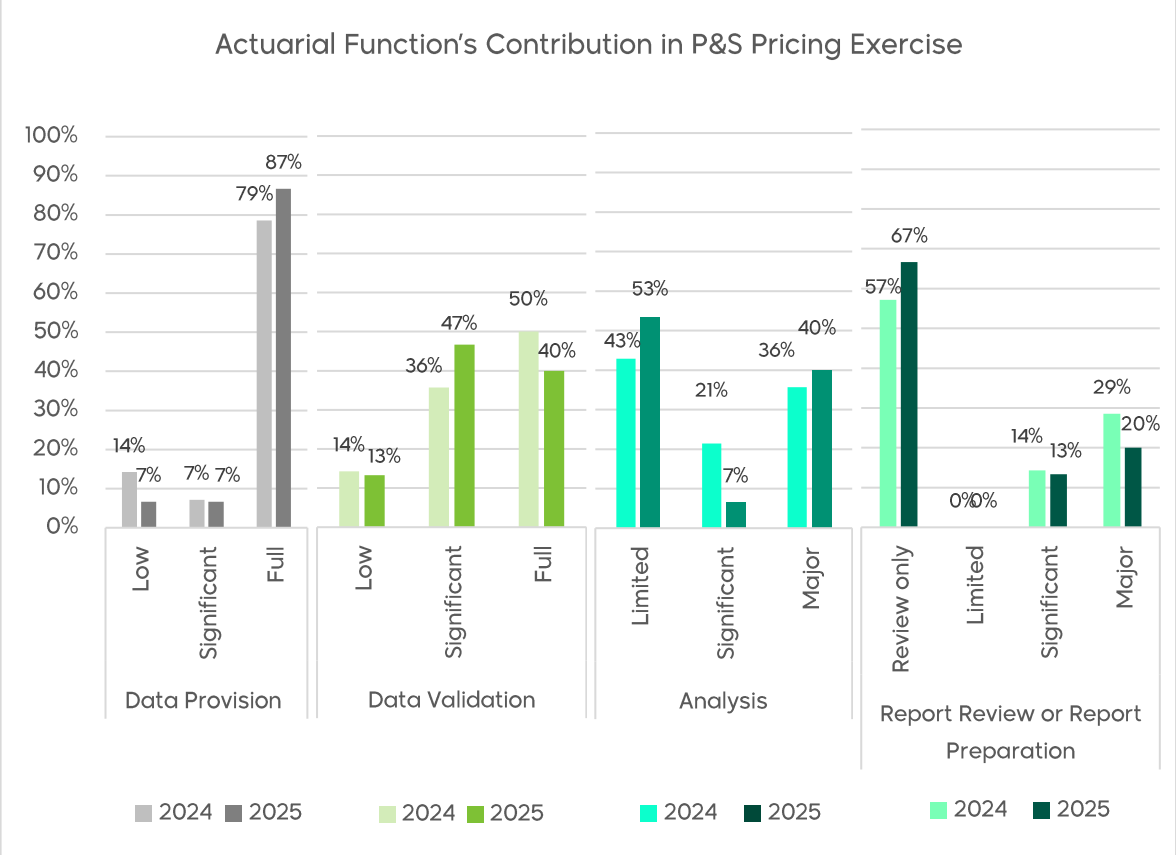


For both products, there is a marked variation between insurance companies in terms of the number of rating variables considered.

For those insurance companies that are towards the lower end of this range, this can affect, possibly materially, their competitive position as well as the profitability of their business due to potentially less accurate pricing than their peers, thus, highlighting the need for those companies to improve their pricing basis on a priority basis in order to remain competitive and write business on profitable terms.

3.3 Actuarial Function's Contribution

The graph below shows the contribution of the actuarial functions of insurance companies at each of the four major steps involved in preparing the P&S Pricing Report, namely, data provision, data validation, analysis, and report preparation & review and compares it with the P&S Pricing Report prepared last year.



The graph shows varying levels of responsibility and contribution at each step. For Data Provision and Data Validation steps, the majority of internal actuarial functions have either taken full or significant responsibility. However, for the core Analysis part, the extent of Contribution remains limited for the majority of internal actuarial functions, though we also note an improvement in the proportion of inhouse actuarial teams performing a 'major' share of tasks at this step.

As regards documenting the analysis and preparing the Actuarial Pricing Report, however, while the role of the majority of internal actuarial functions remained confined to reviewing the report prepared by their appointed actuaries similar to that seen last year, we also note some decline in the extent of contribution deemed significant or major last year. Our findings in this regard indicated that the 2024 submissions included certain overstatements. These have been addressed and rectified through the implementation of controls for the 2025 submission.

The IA expects the contribution of the Actuarial Function of each insurance company to continue to increase over time in all areas, such that the overall contribution in the entire pricing exercise is deemed significant. In particular, the IA expects to see all internal actuarial functions playing an active role in the Analysis step, followed by an increase in their role in preparing the actuarial pricing report. The Insurance Authority sees this active participation as an essential tool for the professional development of the internal actuarial function of the Company, in particular of actuarial candidates working within those actuarial functions.

The IA expects the Company management to provide adequate resources (human and technological) to the internal actuarial function, thus enabling it to play a significant role in producing the above statutory report.

Copy to:

- **Appointed Actuaries**
- **Heads of Actuarial Functions**