

21 July 2024

Dear CEO

Insurance Authority's review of Actuarial Reserving Reports for Year 2023

The year 2023 was the fourth consecutive year of insurance companies submitting actuarial reports under the Actuarial Work Rules (AWR) issued in March 2020. The primary objective of those 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 reserving using best estimates on a quarterly basis, and report to the Senior Management, Board of Directors and the Insurance Authority (IA) the outcome of those exercises. The technical reserving exercise is required to be supported by an experience study, performed at least annually, aimed at deriving certain key assumptions used in technical reserving. Moreover, in order to support the growing standards of actuarial practice in the kingdom, the IA conducts an annual survey of actuarial resources, level of support granted, and extent of involvement of in-house Actuarial functions in producing statutory reports on Technical Provisions, Experience Studies, and other actuarial areas.

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

1. Actuarial Reserving at Year-End 2023 Report (pages 3-34)
2. Experience Studies Report 2023 (pages 35-45)
3. Actuarial Resources Survey 2023 (pages 46-55)

A number of important observations emerged from our review. We would like to share those 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 recommendations 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.

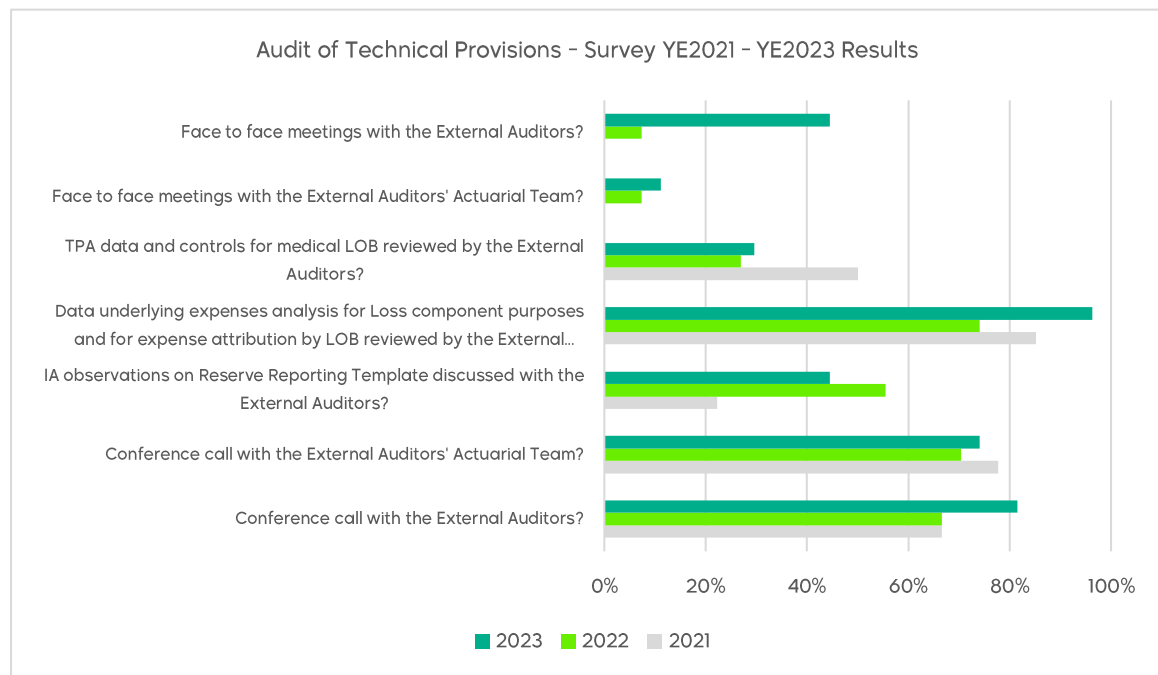
Furthermore, similar to last year, a separate brief document accompanies this letter that summarizes the IA's expectations on each topic mentioned in this letter.

1. Actuarial Reserves at Year-End 2023

1.1 Role of the External Auditors

The external auditors play an important role in providing assurance to the Audit Committee on the reserves estimated by the Appointed Actuary. In previous years, we had identified areas that required attention of the Audit Committee in order to have an effective and technically sound input from its external auditors, which could also meet the professional audit standards. Every year, upon completion of the year-end audit exercise, we carry out a survey of the interaction between the external auditors and the Appointed Actuary as an indicator of the quality of the external auditors' work.

The graph below shows the results of this survey in those areas where we had observed shortcomings in the past:



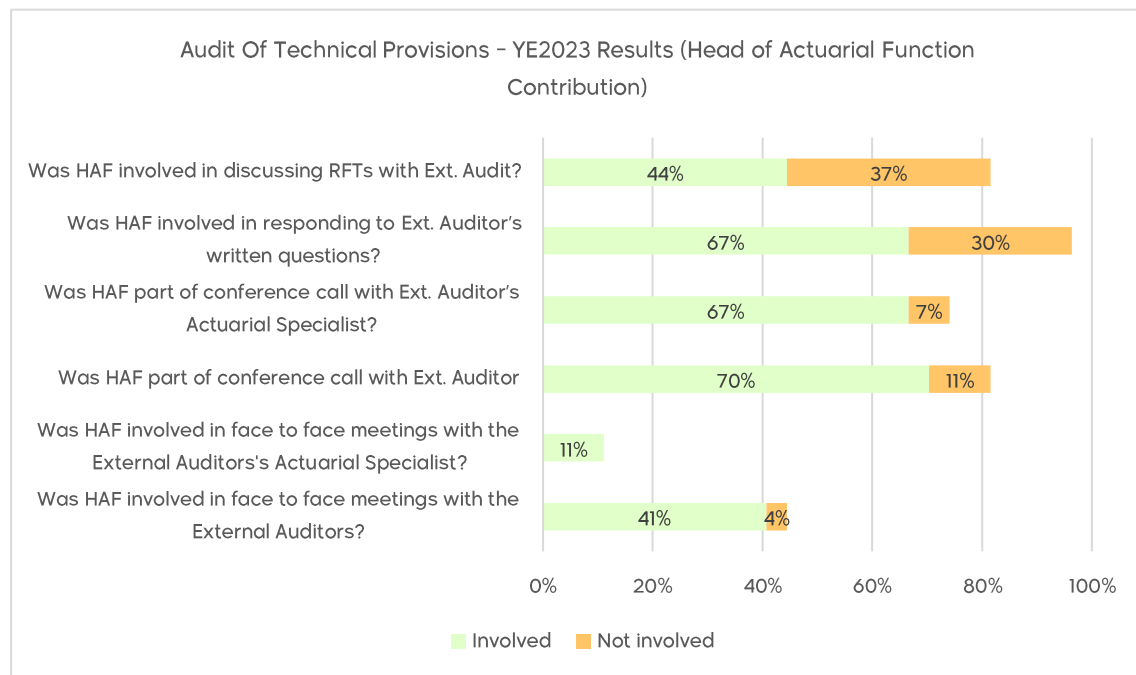
Compared to the previous two years, improvement is observed in certain areas pertaining to the audit of year-end 2023 technical provisions. The proportion of in-person meetings with external auditors has increased, however the instances of in-person meetings between the Appointed Actuary and the external auditor's actuarial specialist remain very low. Regarding the review of TPA data and controls, we once again express our concern over the small percentage of insurance companies obligating their external auditors to

perform this exercise. On a similar note, the proportion of insurance companies sharing the IA's observations on technical provisions with their external auditors has remained low, which in some cases might have resulted in missed opportunities to improve the audit quality.

As regards the audit of the data underlying the expense analysis for loss component calculation and for expense attribution by line of business, significant improvement was observed in the proportion of insurance companies ensuring its coverage by their external auditors.

Moreover, this year's survey was enhanced to include a section, aimed at assessing the extent of involvement of the Head of Actuarial Function in the audit process.

The graph below summarizes the responses for this section of the survey:



As seen above, it is evident that for a number of companies, the Head of Actuarial Function was not involved in some or many audit related activities.

The IA expects the Audit Committee of each insurance company to ensure that

- the scope of external audit requires adequate input from the external auditor's actuarial specialist;

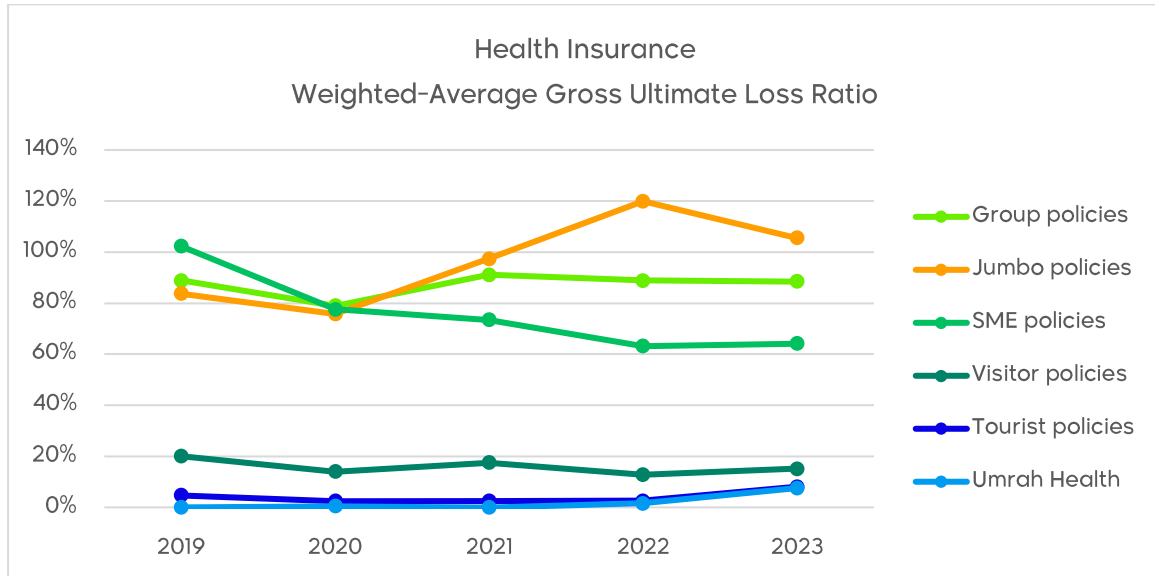
- the external auditor's actuarial specialist possesses appropriate professional qualification and skills, and is fully aware of the latest trends in the Saudi insurance sector;
- there is evidence of sufficient interaction with and challenge of the technical provisions estimated by the Appointed Actuary;
- the scope of audit exercise is comprehensive and all material risks are covered within the audit scope, e.g., TPA data and controls are included within the audit scope where the Company uses the services of a TPA;
- it monitors and verifies adherence with the audit scope by the external auditors;
- its internal Actuarial function is sufficiently and appropriately involved in the audit process in order to avoid any data or communication gaps.

1.2 Trends in Health Insurance

1.2.1 Performance by Minimum Reserving Segments

During 2023, the IA issued guidance on the minimum reserving segments to be used by appointed actuaries for Health insurance business, viz., Group, Jumbo, SME, Visitors' Visa (VVisa), Tourist Visa (TVisa), and Umrah policies. While the extent of compliance with that minimum segmentation has improved quarter on quarter during 2023, we note that some companies are still unable to fully adhere to the guidance.

The graph below shows the loss ratio by the minimum reserving segments over the last five accident years:



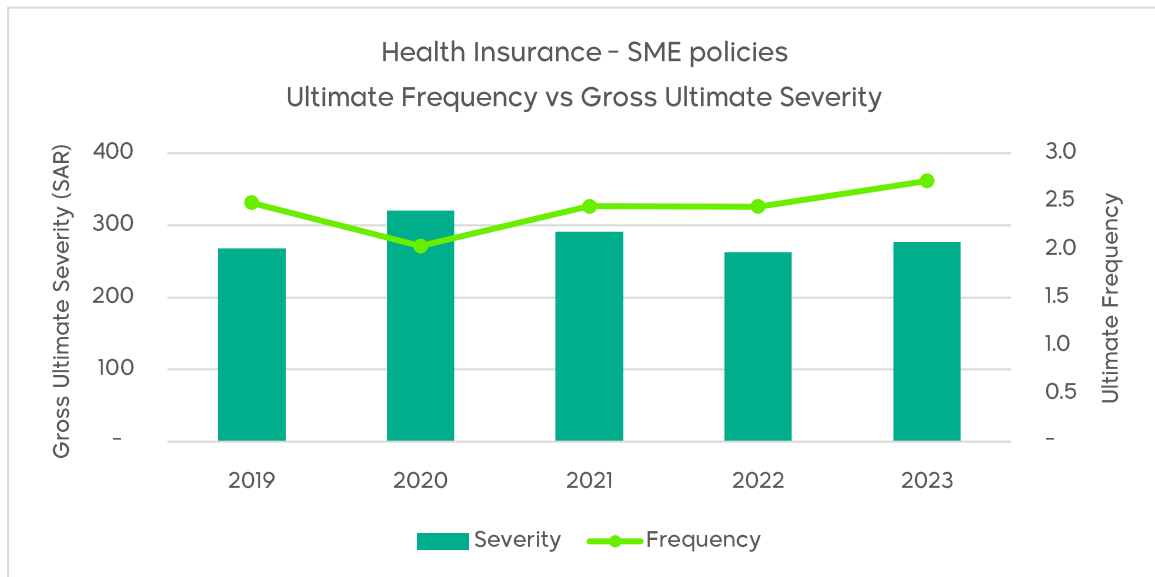
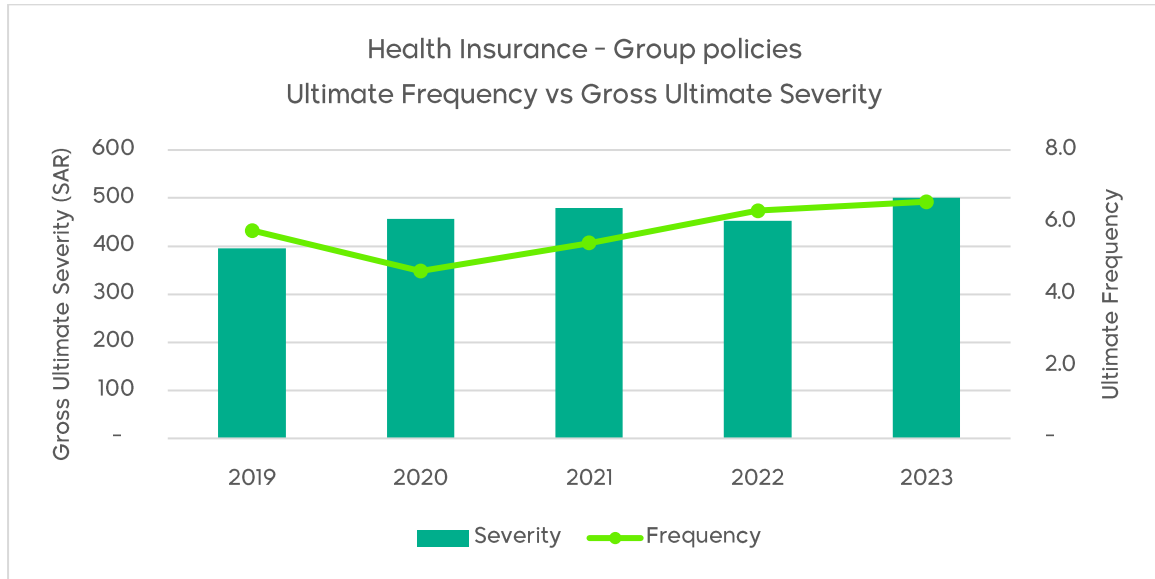
It can be observed that loss ratios for both Group and SME segments have been relatively stable in recent years. While the loss ratio for jumbo policies has reduced during year 2023, it is still very high to be deemed sustainable, particularly considering the potentially large impact of such jumbo policies on the overall profitability of the portfolio. On the other hand, loss ratios for segments providing coverage to various categories of visitors remain very low.

The IA has issued new instructions for actuarial reserving in year 2024, which mandate the use of minimum reserving segments by appointed actuaries.

1.2.2 Frequency & Severity of Claims

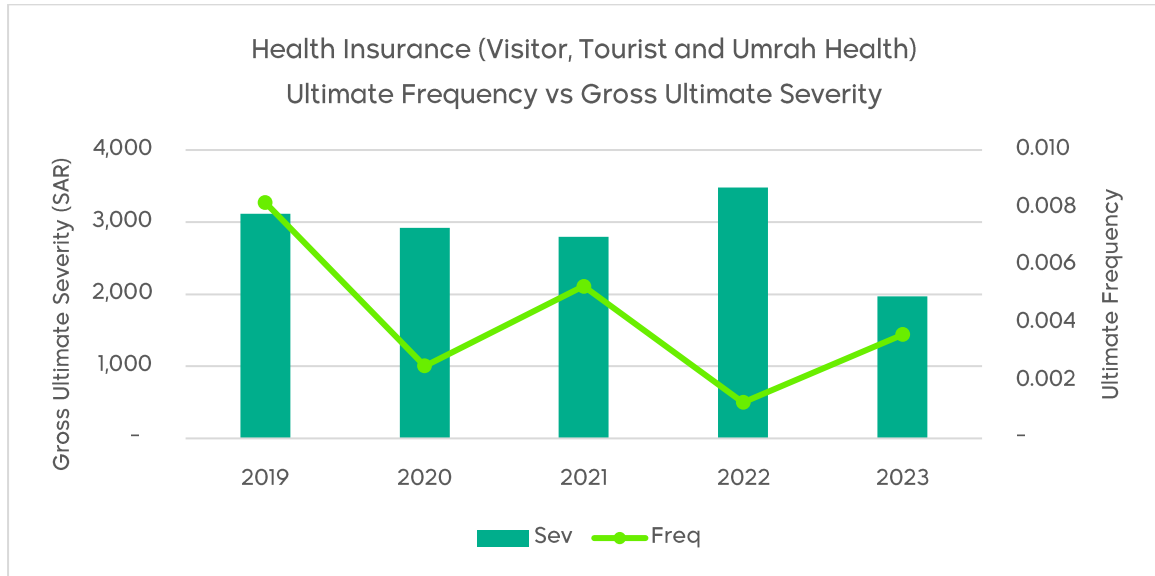
The analysis of frequency (average number of treatments per insured) and severity (average cost per treatment) provides a view of Health insurance costs that is unaffected by pricing strategies of insurance companies.

The graphs below show the weighted average of frequency and severity for various reserving segments.



For Group and SME business, compared to year 2022, both the frequency and severity of claims increased during year 2023. The increase in frequency was of almost similar magnitude between the two segments, whereas the increase in severity was more pronounced for Group business than SMEs. Overall, there is a stark difference in both the frequency and severity of claims between the two segments, which can be attributed to a range of factors including network choices, benefit limits, deductibles, etc.

The graph below shows the frequency-severity statistics, combined for the three visitor insurance categories:

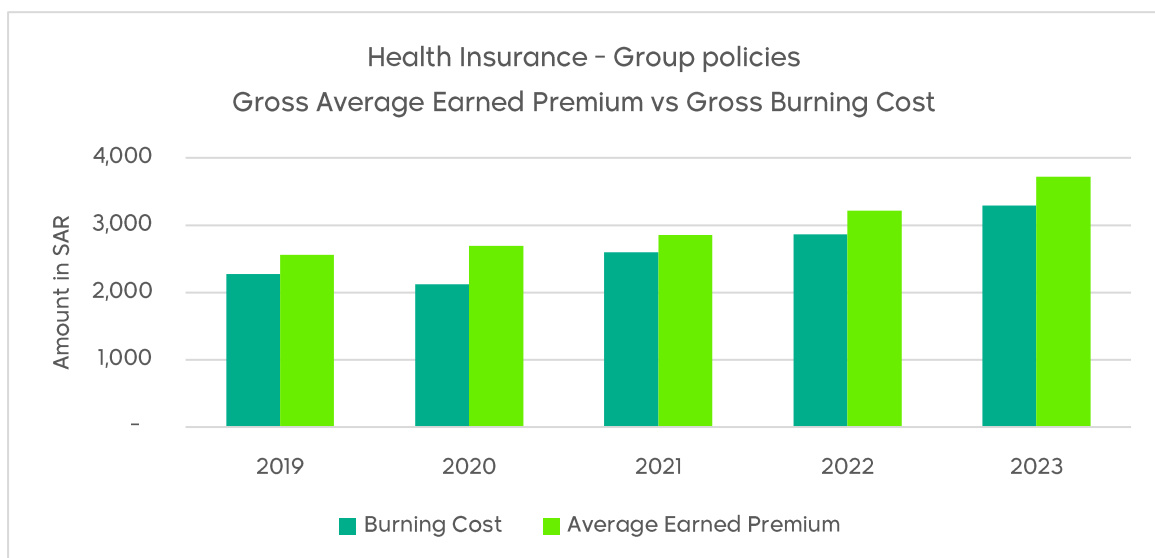


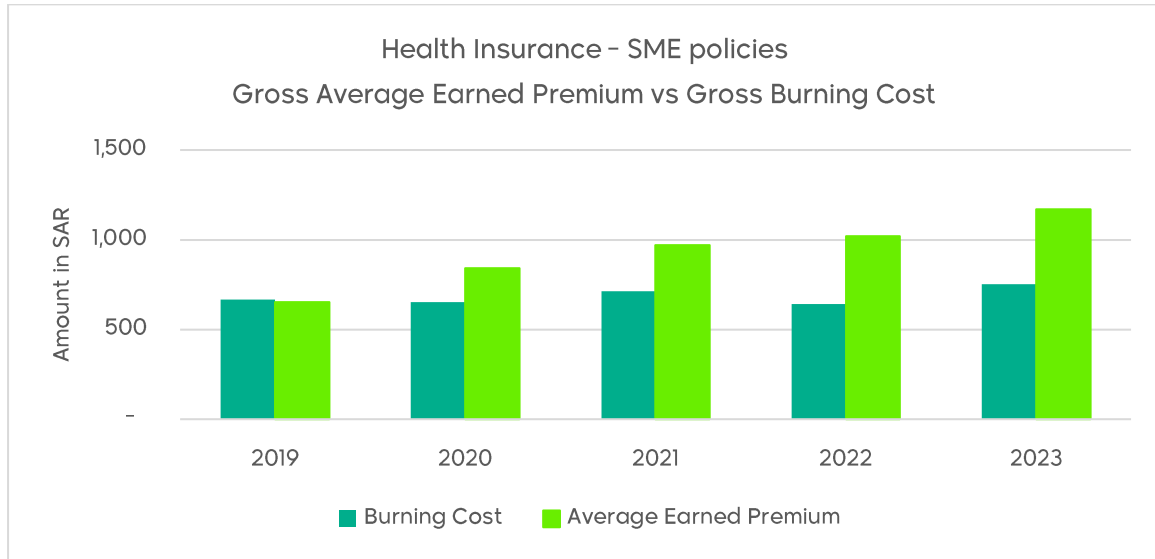
For the overall visitor insurance category, it can be observed that while frequency is far lower than that observed under Group and SME segments, the severity of claims is significantly high, which is understandable given that these policies cover emergency cases only.

1.2.3 Burning Cost vs Average Premium

It is always interesting to track whether and how closely the average premium is keeping pace with changes in the burning cost (claims cost per insured) over time.

The graphs below show the average earned premium and the burning cost by reserving segment for the last five accident/treatment years:





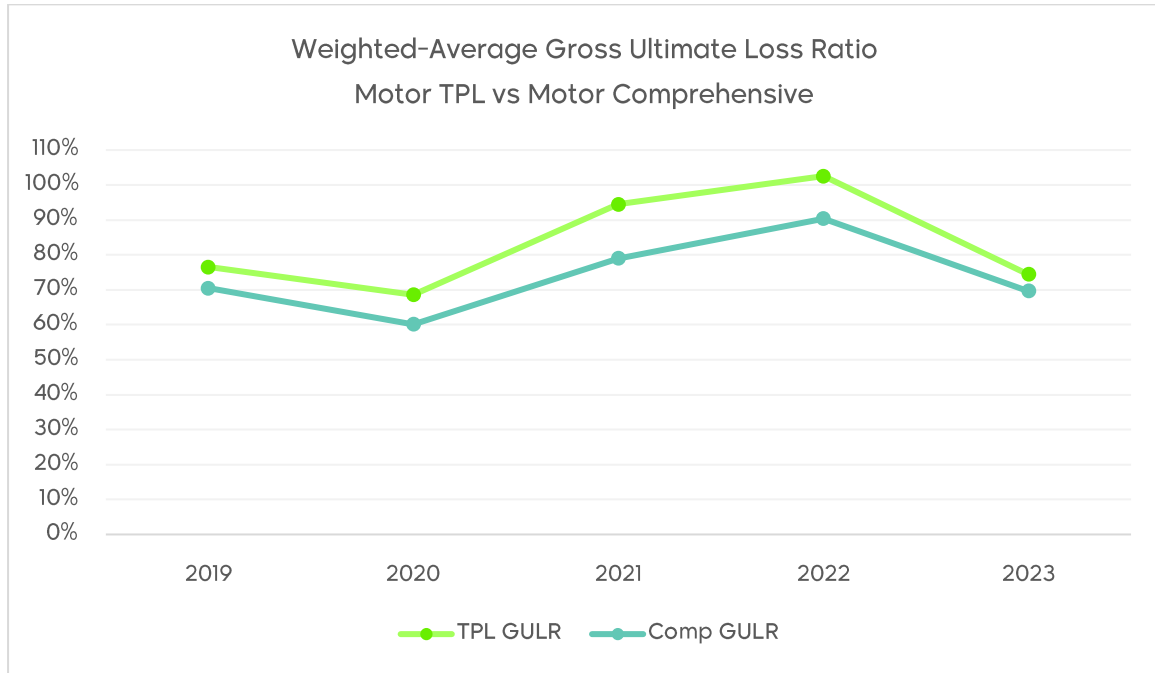
The IA expects

- the Appointed Actuary to ensure that the reserving methodology adopted complies with the minimum reserving segments stipulated;
- the Actuarial, Underwriting and Claims functions to timely identify and understand the drivers of changes in frequency and severity of Health insurance claims, and take appropriate actions for the improvement of pricing, underwriting and/or claims management practices;
- the management to pay close attention to pricing, underwriting and claims management in respect of Jumbo Health insurance policies in order to avoid adverse results for the Company;
- management to introduce effective measures to reduce the Health cost inflation in liaison with both medical providers and employers of insureds.
- management to ensure that the pricing basis for Health insurance is fair, reasonable and adequate at all times.

1.3 Trends in Motor Insurance

1.3.1 Performance by Portfolio

The graph below shows the claims experience under Motor insurance, separately for Motor Third Party Liability (TPL) and Motor Comprehensive, over the last five years for all insurance companies in aggregate.



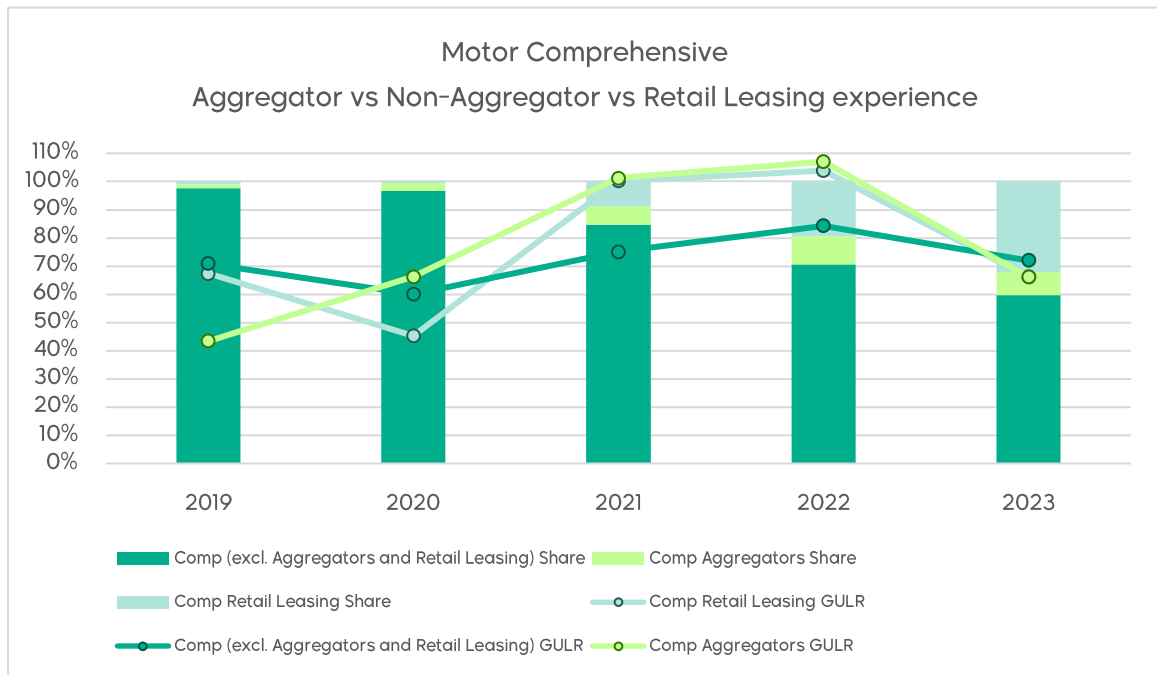
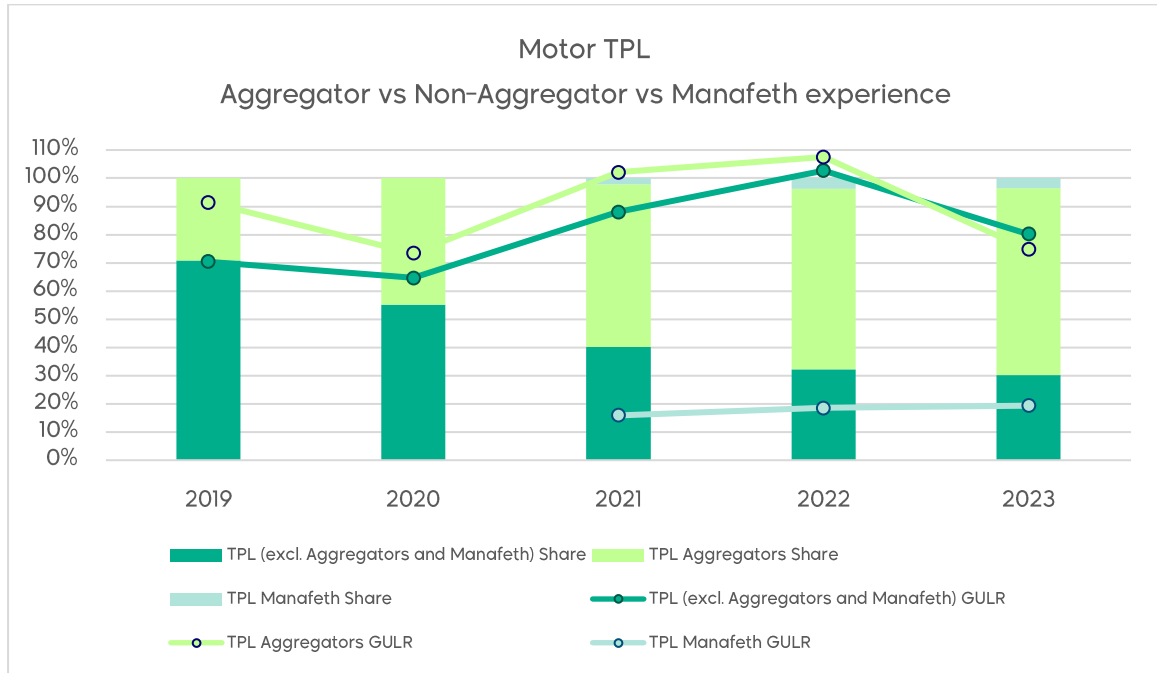
Note: Motor TPL loss ratio includes Manafeth experience.

It can be observed that, after hitting its highest level over the last five years in 2022, loss ratio for both TPL and Comprehensive portfolios reduced significantly in 2023. This was mainly due to the pricing corrections introduced by insurance companies as the high loss ratio in 2022 was not deemed sustainable, particularly for Motor TPL.

1.3.2 Performance by Minimum Reserving Segments

Subsequent to the entry of aggregator sales channels in Saudi Motor insurance sector in late 2017 and capturing of a material share of the market since 2019, each Appointed Actuary was instructed to project and track the experience of Motor business sourced via aggregator channels separately from other Motor business. The instructions were extended to the Comprehensive Retail Leasing business after introduction of the relevant regulations in 2020.

The graphs below show the proportion of Motor reserving segments by premium volume in recent years along with the loss ratios for each.



For Motor TPL, it can be observed that the share of aggregator business has grown rapidly year on year, and only in 2023, its share is showing signs of stability. On the downside, the loss ratio of the aggregator business remained significantly higher than of the business sourced via non-aggregator channels until 2023, increasing the profitability strain on insurance companies. Interestingly, year 2023 is the first accident period when the loss ratio for aggregator business went below that of the non-aggregator business. For

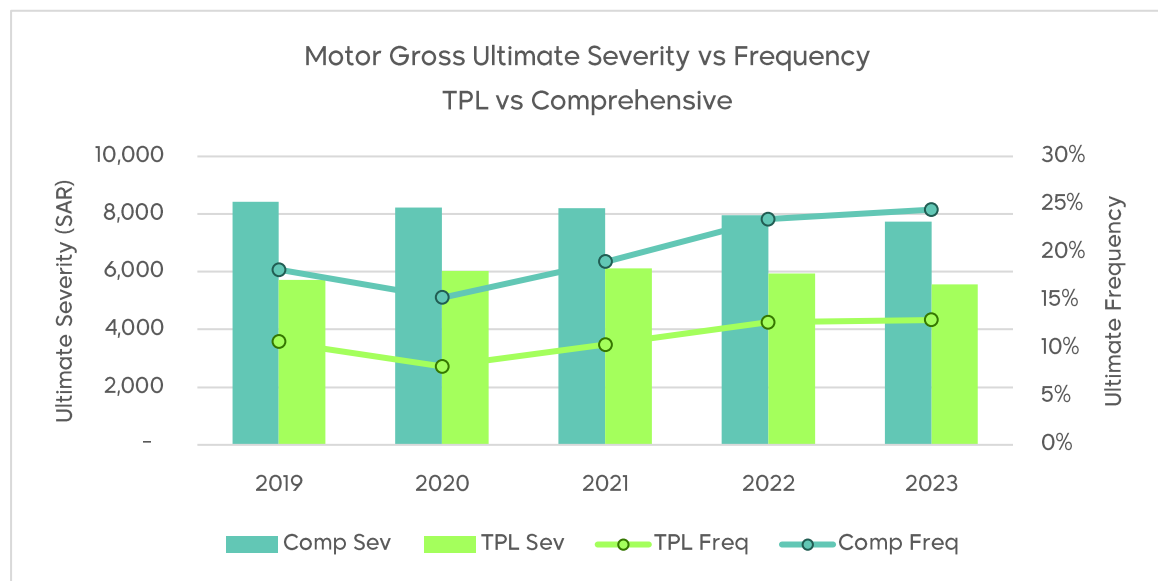
Manafeth policies, since their allocation to individual insurance companies commenced in 2021, the loss ratio has remained very low and stable.

For Motor Comprehensive, a similar experience is observed, where the performance of aggregator business in 2023 is better than non-aggregator business which was historically materially worse than the non-aggregator business, though it can be noted that the share of aggregator business in Motor Comprehensive is significantly lower than observed in Motor TPL business. More importantly, the loss ratio experience under the retail leasing business, whose share has been growing year on year, has also fallen below the loss ratio for non-aggregator business in 2023. Since 2021, the loss ratio for retail leasing business is closely tracking the loss ratio for aggregator business.

In the light of the growing share of the business written through aggregator and retail leasing channels, it is imperative that insurance companies continue looking at both the commercial and technical aspects of business sold through these channels, and seek to avoid the 'winner's curse'.

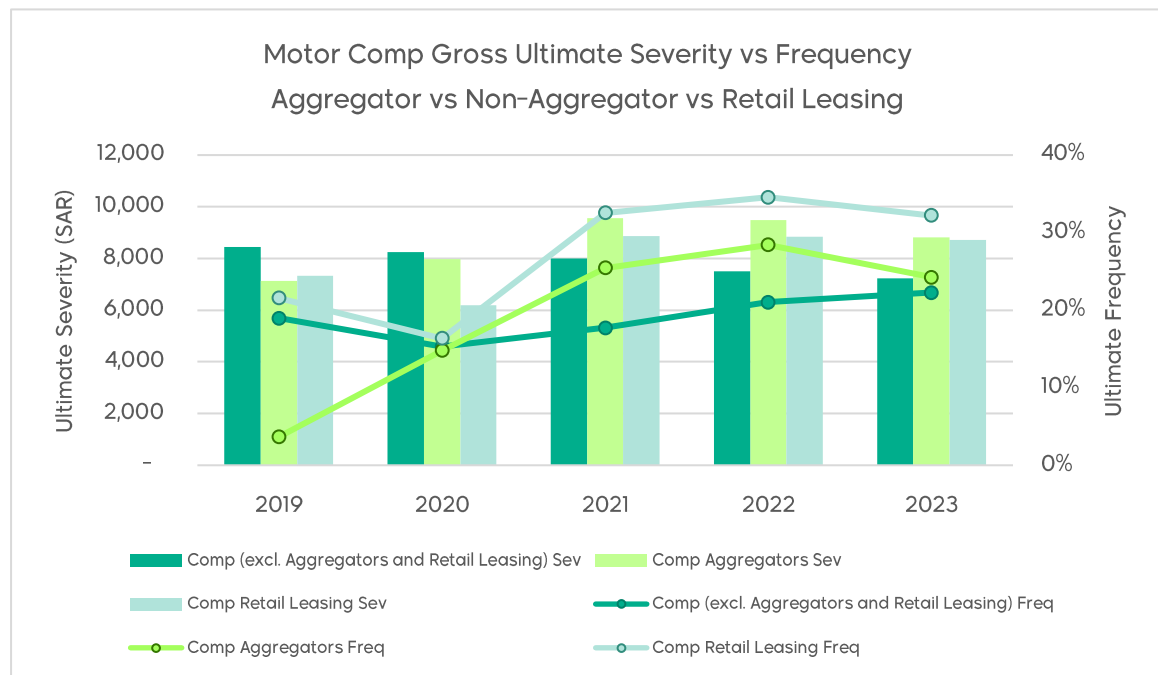
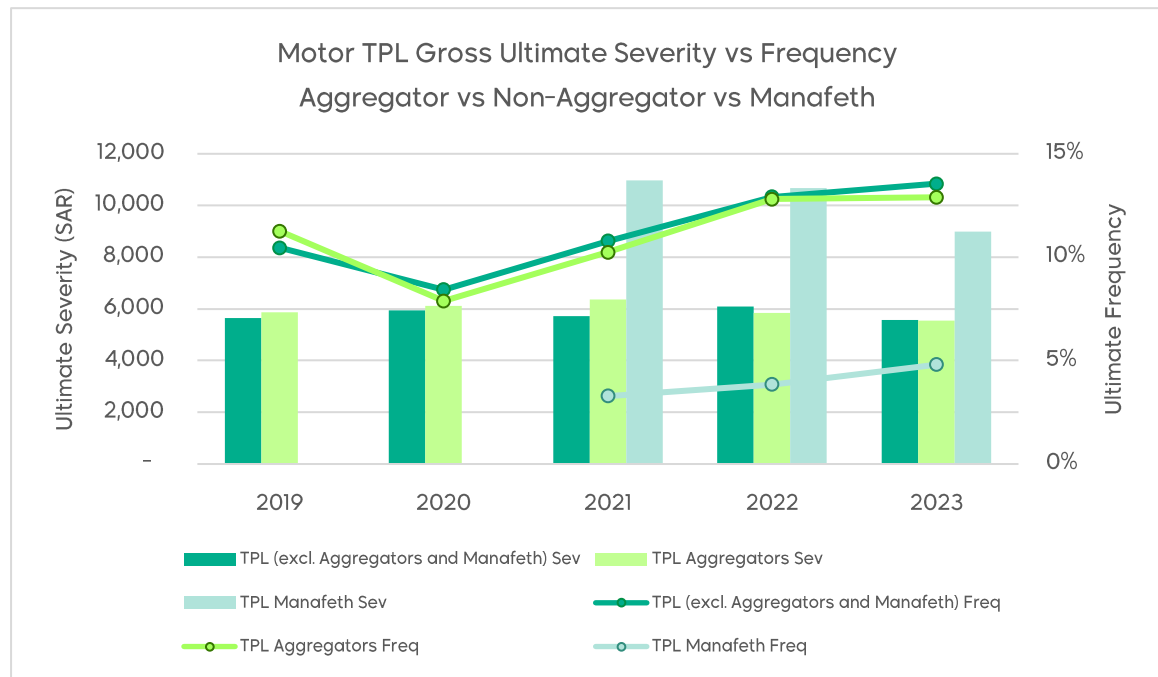
1.3.3 Frequency vs Severity

The graphs below show the trends in burning cost, frequency and severity of Motor claims, separately for Motor TPL and Motor Comprehensive portfolios.



For both Motor TPL and Comprehensive, claims severity shows a slightly decreasing trend while frequency shows an increasing trend, with hints of stability in 2023.

The graph below shows the frequency and severity for each reserving segment individually.

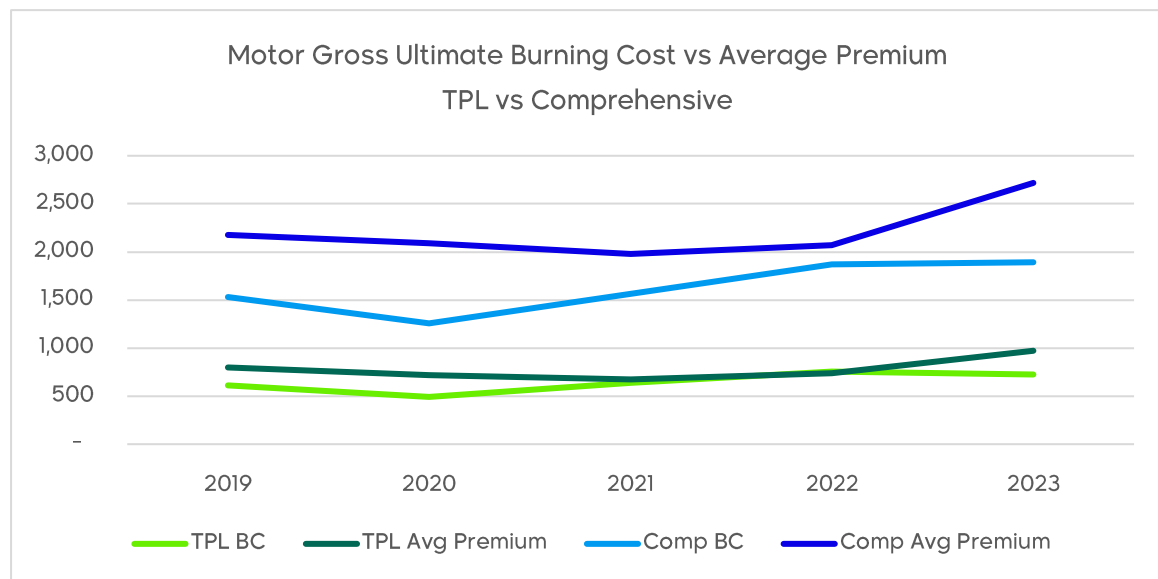


For the reserving segments under Motor TPL, it is interesting to note that the differences in frequency and severity of claims between aggregator and non-aggregator business are not as pronounced as seen in the historical loss ratios for these two segments. It can therefore be inferred that the historically high loss ratios under aggregator business were driven mainly by inadequate pricing of aggregator business.

On the other hand, as regards the reserving segments under Motor Comprehensive, material differences are observed in both the frequency and severity of claims among the three segments. In particular, the frequency of claims under Retail Leasing is significantly higher than the other two segments, possibly due to new cars being leased by a relatively large proportion of inexperienced drivers. Moreover, a noticeable reduction in claims frequency is observed for both retail leasing and aggregator segments in 2023, though it went up for the non-aggregator segment. We observe that these are still early days for the 2023 claims to be projected with full precision, and we will monitor the developments in this regard going forward.

1.3.4 Burning Cost vs Average Earned Premium

The graph below assesses whether the average premium for Motor policies has been keeping pace with the changes in the burning cost.



It can be observed that, for Motor Comprehensive, insurance companies were slow to respond to the burning cost increased during 2021 and 2022 that led to

the loss ratio reaching its peak in 2022. For Motor TPL, similar observation can be made. It reaffirms that the improvement in the loss ratios during 2023 seen in Section 1.3.1 above is driven by the increase in average premium while the burning cost remained relatively stable.

The IA expects:

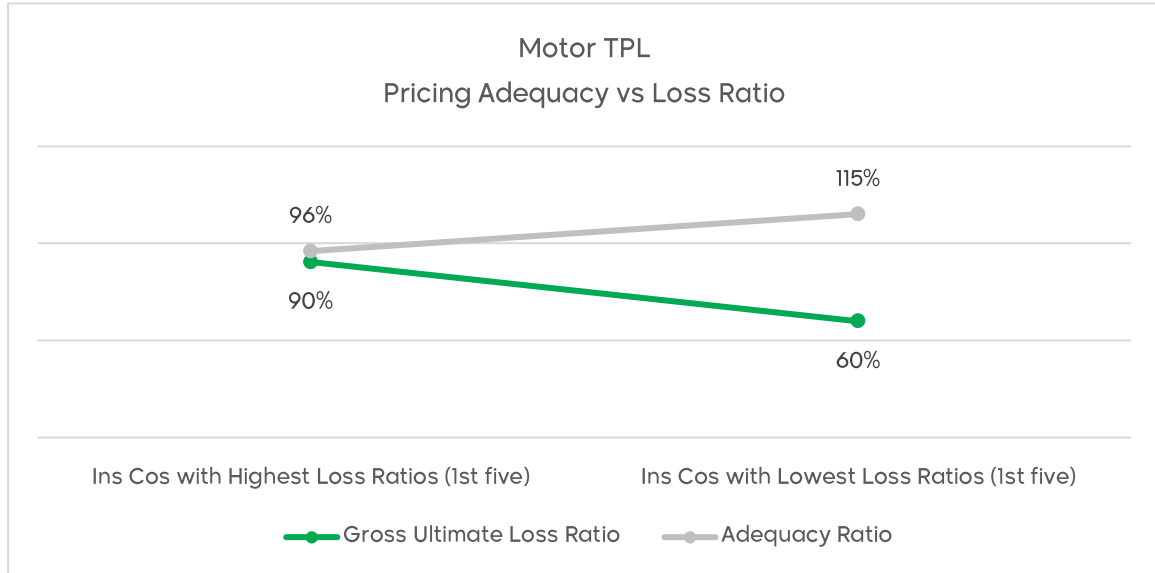
- the Appointed Actuary to ensure that the reserving methodology adopted complies with the minimum reserving segments stipulated;
- the Appointed Actuary to seek to further refine the analysis of business sourced via aggregator and retail leasing channels, and reflect the results of the analysis appropriately in actuarial pricing and reserving in a timely manner;
- the Appointed Actuary to seek to understand and explain to management the drivers of emerging trends in the frequency, severity and burning cost of claims, and the reasons for differences in these measures between reserving segments;
- management to ensure close monitoring of emerging claims experience under Motor insurance, identification of drivers behind recent changes in loss ratios and frequency of claims, and implementation of corrective pricing measures on a timely basis in order to avoid underwriting losses and unhealthy price competition.

1.3.5 Impact of Pricing Adequacy on Loss Ratios

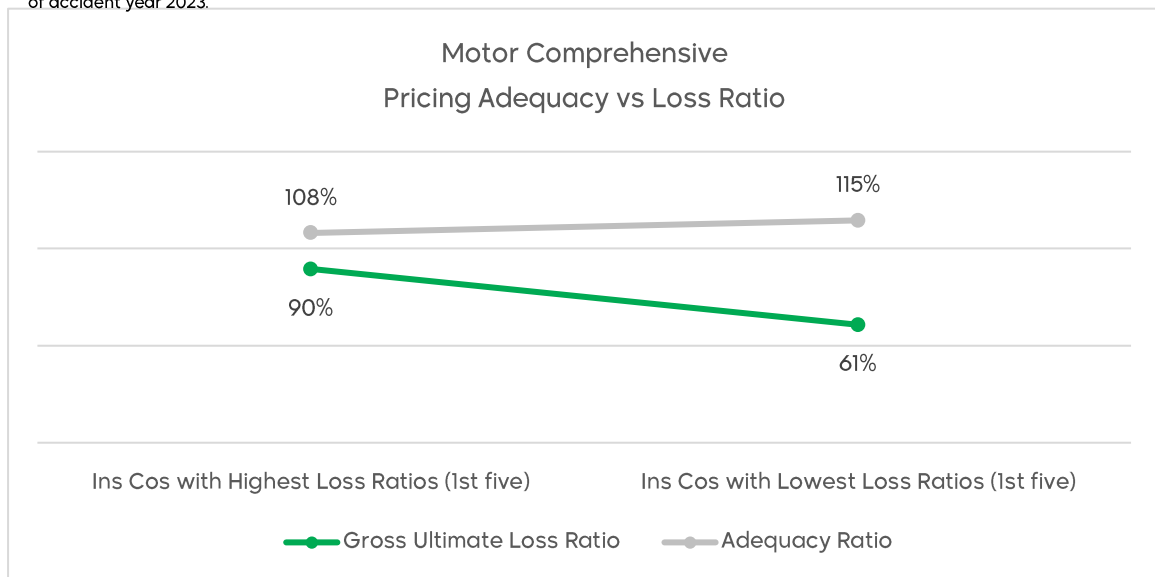
For Motor and Health portfolio, subject to meeting a number of conditions, the regulatory instructions give discretion to the Underwriting function of an insurance company to sell an insurance policy at a price different from that recommended by its Appointed Actuary. Among others, these conditions require that any discounts on the technical price must be within the Underwriting Authority Framework approved by the Company's Board of Directors, rationale for any discounts given should be appropriately documented, and the Board should be made aware of the potential financial impact of those discounts.

Everything else being equal, a low price adequacy can be expected to produce a high loss ratio and low profitability, and vice versa. In this regard, the graph below compares the pricing adequacy ratio against the gross ultimate loss

ratio for accident year 2023 between companies with the highest loss ratios and those with the lowest loss ratios for Motor TPL and Motor Comprehensive portfolios.



Note: The adequacy ratio used is the average of underwriting periods 2022H2 and 2023H1 in order to correspond to the earned premium of accident year 2023.

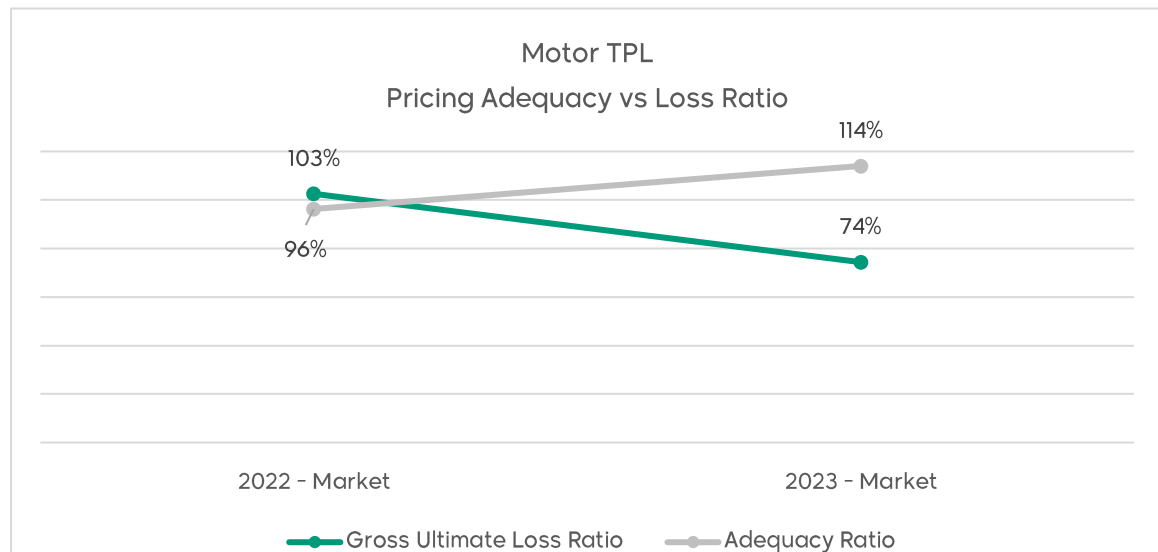


Note: The adequacy ratio used is the average of underwriting periods 2022H2 and 2023H1 in order to correspond to the earned premium of accident year 2023.

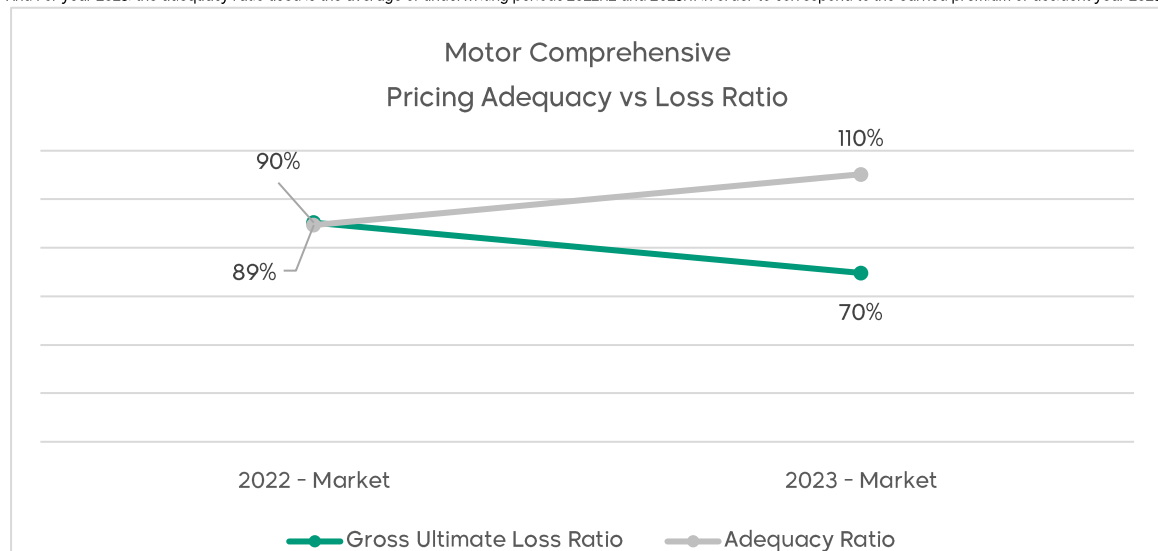
Under Motor TPL, for the worst-performing companies in terms of loss ratios, it is evident from the above graph that, while adherence to the technical prices would have reduced their losses, it would not have brought the loss ratios close to the best performing companies. Under Motor Comprehensive, despite writing business at prices well above the technical prices recommended by their appointed actuaries, the aggregate loss ratio of those companies was very high, likely resulting in underwriting losses under this portfolio.

While both graphs suggest that high pricing adequacy ratio leads to improved results, these also point towards the inadequacy of the technical prices recommended by appointed actuaries of insurance companies with the highest loss ratios.

The graphs below compare these pricing adequacy and loss ratio statistics for the overall Motor market for 2022 and 2023.



Note: For year 2022: the adequacy ratio used is the average of underwriting periods 2021H2 and 2022H1 in order to correspond to the earned premium of accident year 2022. And for year 2023: the adequacy ratio used is the average of underwriting periods 2022H2 and 2023H1 in order to correspond to the earned premium of accident year 2023.



Note: For year 2022: the adequacy ratio used is the average of underwriting periods 2021H2 and 2022H1 in order to correspond to the earned premium of accident year 2022. And for year 2023: the adequacy ratio used is the average of underwriting periods 2022H2 and 2023H1 in order to correspond to the earned premium of accident year 2023.

It can be observed that, as the pricing adequacy improved between the two years, the loss ratio improved simultaneously, thus emphasizing the importance of underwriting discipline. For Motor Comprehensive in particular, the extent of

improvement in the loss ratio is of a very similar order as the improvement in the pricing adequacy ratio.

A regular production of pricing adequacy reports is intended to serve as an effective control over pricing and underwriting activities at an insurance company. At the same time, it is possible that the above statistics suffer from lack of reliable data, a concern commonly shared by appointed actuaries and observed at multiple occasions during IA's inspection visits. The fact that many insurance companies still produce the above reports manually, unlike many others who have fully automated the process, give credence to the doubts regarding the reliability of data.

The IA expects management to ensure

- reliability of data used to produce the pricing adequacy reports;
- full automation of the process to produce the pricing adequacy reports;
- strict adherence to the Underwriting Authority Framework for discretionary reduction in premium rates;
- timely sharing of information with the Board of Directors as regards the expected financial impact of any material pricing discounts;
- maintaining a strong feedback loop between the Underwriting function, Head of Actuarial Function and the Appointed Actuary for maintaining the relevance and accuracy of the technical prices calculated by the Appointed Actuary.

The IA expects the Appointed Actuary to ensure:

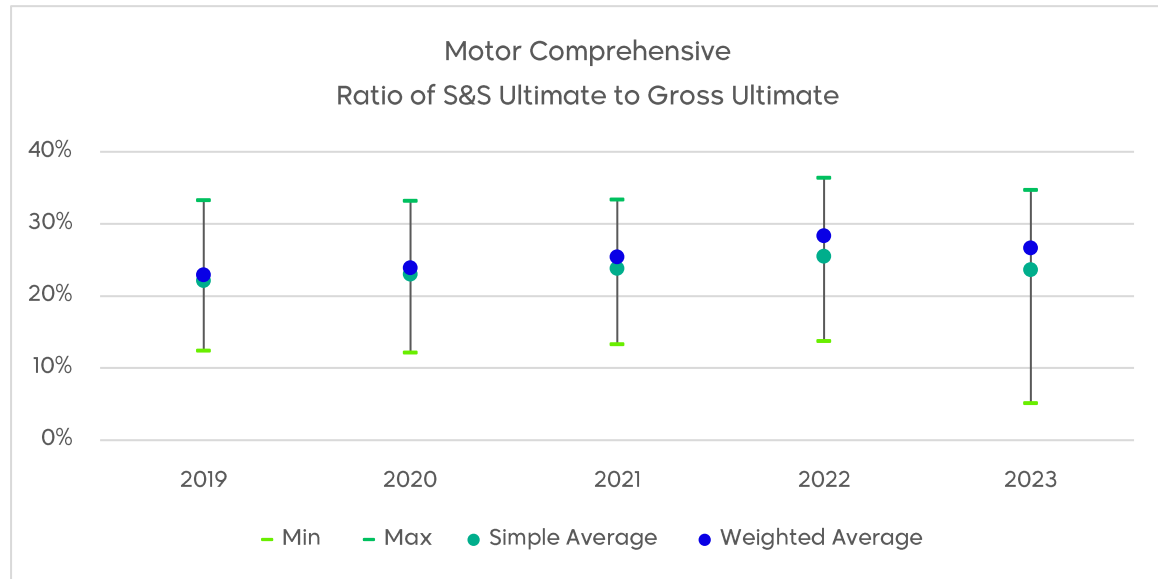
- that results of pricing adequacy and actuarial reserving exercises inform the need and extent of actuarial re-pricing, and where established, such re-pricing be carried out in a timely manner.

The IA expects the Head of Actuarial Function to ensure

- appropriate validation of data used to determine the pricing adequacy ratio;
- availability of appropriate technical assistance to Underwriting and other functions in executing data remediation and automation plans in order to improve reliability of the results produced.

1.3.6 Salvage & Subrogation (S&S) Estimates

Effective management of salvage and subrogation recoveries can help a Motor insurer in reducing, possibly substantially, the net cost of claims. The graph below shows the range of the projected ultimate recoveries by insurance companies for recent accident years.



The wide range seen above implies that while some companies are able to improve their net claims experience by efficiently realizing the potential of salvage and subrogation recoveries, there are companies at the lower end of the spectrum with significant untapped potential, which in turn can severely affect their competitive position in the sector.

Until the latest accident year 2023, the average recovery ratio had been increasing steadily year on year, and the rate of increase had been more pronounced on a weighted average basis than on a simple average basis, indicating that larger insurance companies were able to deploy more effective recovery strategies, which should serve as an encouragement for smaller companies to invest and strive more in this area. In accident year 2023 however, a dip in projected recovery ratios is observed compared to the previous year, though we note that these are early days for this accident year and there may be an element of caution in those projections.

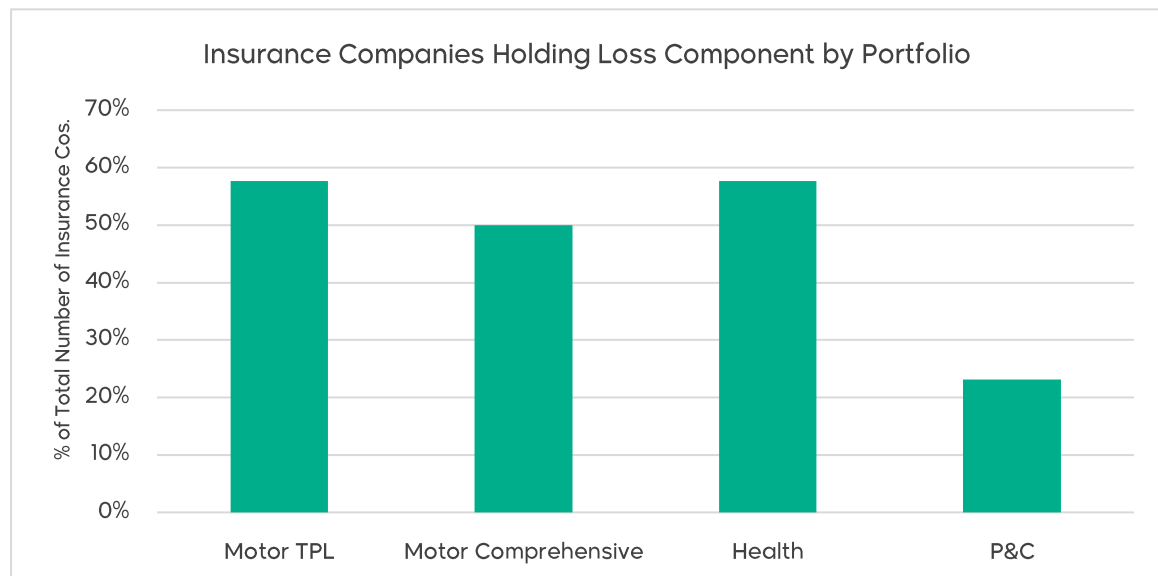
The IA expects management to continue enhancing the efficiency of its claims recovery process in order to maximize the benefit of this potentially sizable

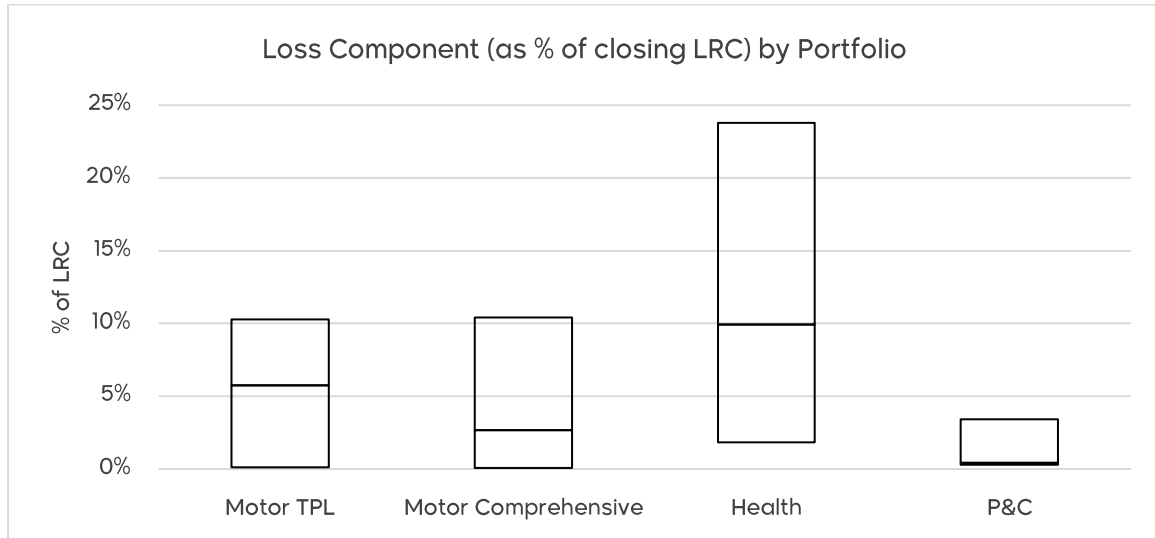
revenue source, and be able to offer more competitive rates to policyholders, in particular for Motor Comprehensive policies.

1.4 Loss Component

With the adoption of IFRS 17, the concept of 'premium deficiency reserve' was replaced by 'loss component'. Accordingly, within each portfolio of insurance contracts, an insurance company is required to identify onerous (i.e., loss-making) group of contracts separately from other contracts and make a provision for those losses, called 'loss component'. Unlike premium deficiency reserve, for the purpose of financial reporting, the Company cannot offset losses under onerous contracts with profits from other groups of contracts within the same portfolio.

The graph below shows the loss component statistics for Motor and Health portfolios, the two portfolios that generally experience intense competition, as well as for P&C portfolios.



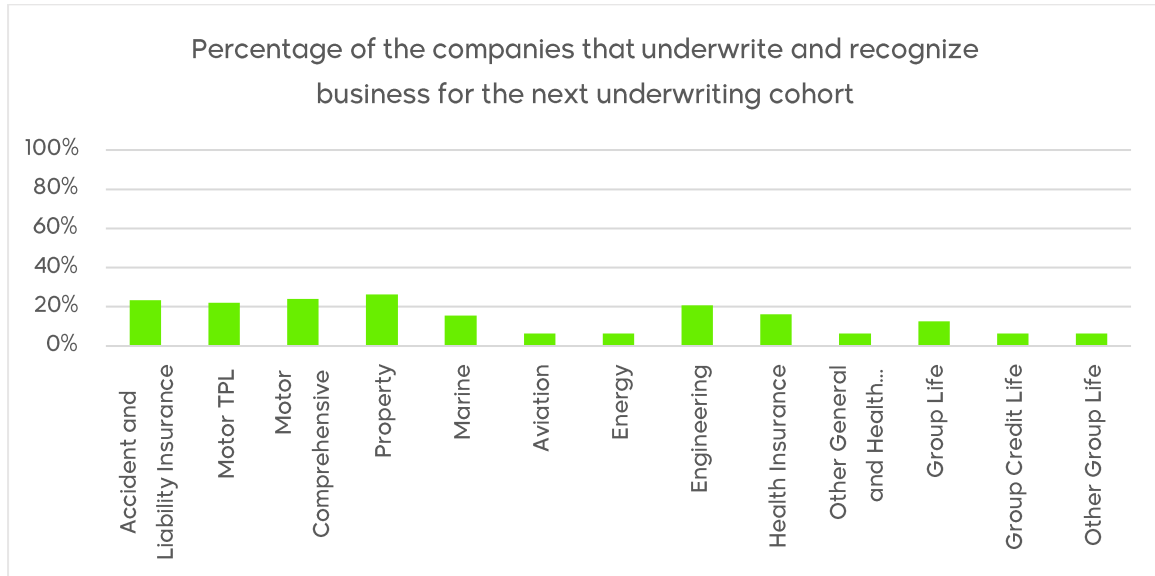


It can be observed that the loss component for Health insurance has the largest variation among insurance companies, indicating the highly competitive nature of this portfolio, in particular of large premium volume corporate business, and highlighting the need to improve pricing and underwriting practices in order to avoid large underwriting losses.

It is expected that, with the adoption of IFRS 17, the underwriting practices of insurance companies will come under closer scrutiny by the investor community, eventually leading to better underwriting discipline and greater overall transparency of reporting. This may directly influence the growth strategy of insurance companies and hence management may need to pay due attention towards it.

Moreover, under IFRS17, a contract must be recognized at the earliest of the following dates: a) premium due date, b) the date a contract is classified as onerous, and c) the policy effective date. Therefore, insurance companies shall recognize the written business for the next underwriting cohort if any of the above is applicable before the close of the current quarter.

The graph below shows the proportion of insurance companies that stated successfully adopting the system of timely recognition of insurance contracts in line with the above requirement under IFRS 17.



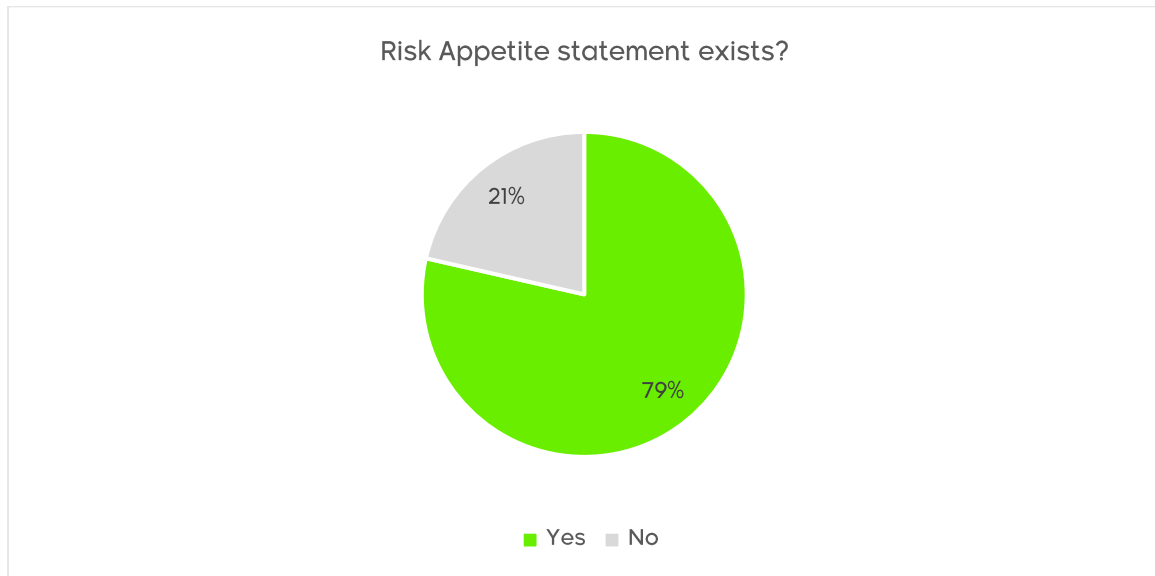
The IA expects

- management to be cognizant of the impact of onerous contracts on the overall profitability of the Company as well as the attention it may draw from the investor community, and of its competitive position compared to its peers in order to optimize its growth strategy;
- each insurance company to lay down a process for identifying the contracts written in advance, particularly onerous contracts, in line with the principles of IFRS 17 and that process be followed diligently, so that onerous contracts are recognized in financial statements in a timely manner and corrective pricing and underwriting actions can be taken without costly delays.

1.5 Risk Adjustment

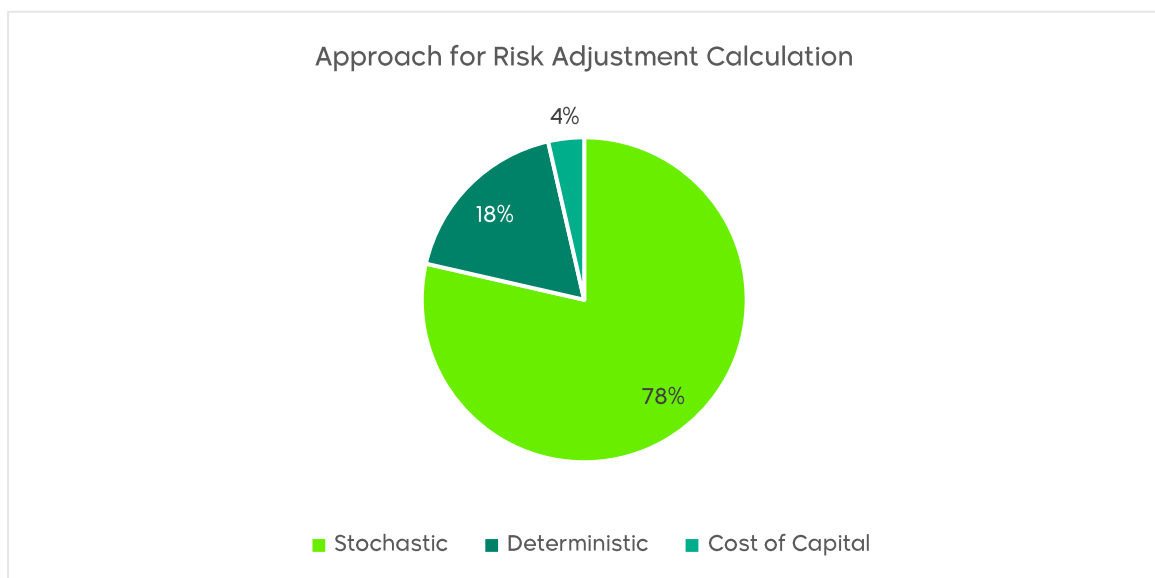
Under IFRS 17, an insurance company is required to reflect the uncertainty inherent in technical provisions by adding a margin on top of the best estimate of technical provisions, namely, 'risk adjustment'. This risk adjustment shall be determined in line with the risk appetite of the insurance company and the Company is required to disclose the confidence level of technical provisions inclusive of risk adjustment.

The graphs in this section show key statistics in respect of the risk adjustment as at year-end 2023.



A noticeable proportion of insurance companies have not yet defined their tolerance level in respect of the volatility of technical provisions. We express our concern in this regard, as it is an indicator of the disconnect of the Company management with the philosophy behind the estimation of technical provisions.

The graph below shows the range of modelling approaches used by appointed actuaries to determine the risk adjustment.



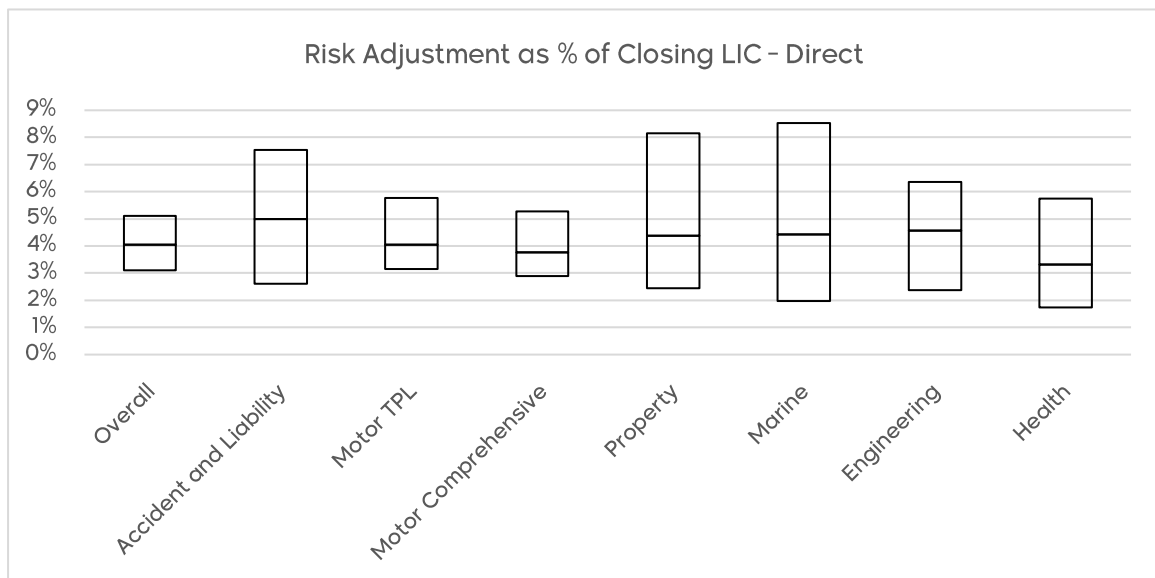
While the majority of insurance companies are using stochastic estimation techniques, it is expected that the small minority of insurance companies relying on deterministic methods will explore the appropriateness of more sophisticated estimation techniques for their portfolio going forward.

The graph below shows the range of confidence level of technical provisions, after addition of risk adjustment, determined by insurance companies.



While the median value sits at 75%, it can be observed that management of some insurance companies have adopted a materially higher or lower confidence level than the median value.

The graph below shows the results of risk adjustment calculation by insurance companies, expressed as a percentage of the liability for incurred claims (excluding risk adjustment), for major portfolios of insurance at year-end 2023.



It can be observed above that the risk adjustment for each portfolio varies materially among insurance companies. As regards the median, Health portfolio has the lowest value, whereas Accident & Liability portfolio has the highest value. The above marked differences among insurance companies can possibly be attributed to differences in historical experience, in confidence levels used, in sophistication of the actuarial modelling approach, and in the diversification/correlation assumptions used.

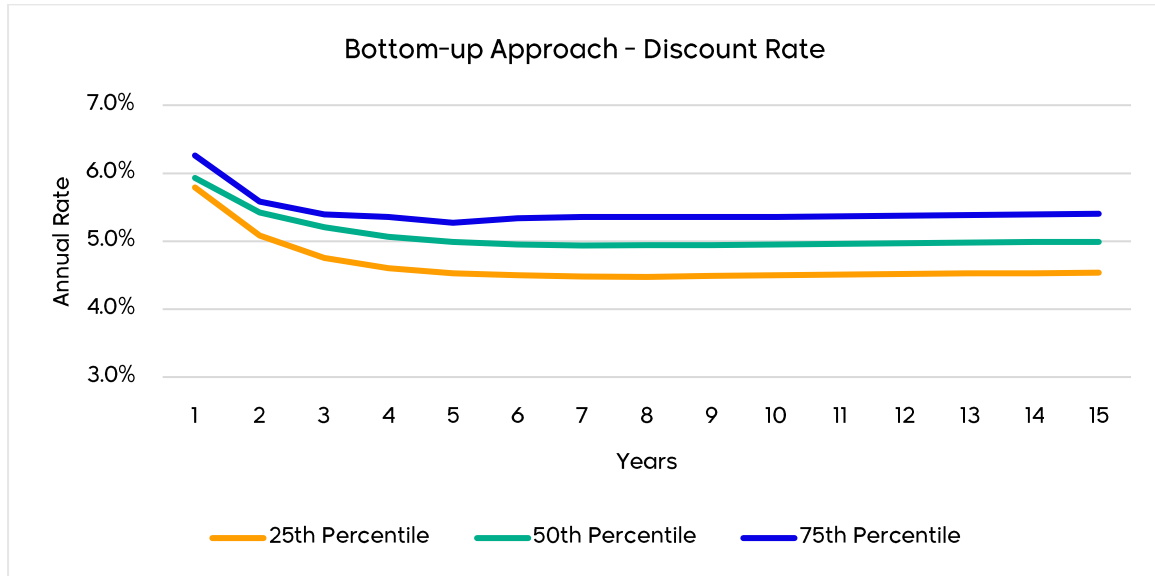
The IA expects

- insurance company management to ensure the reserve risk is sufficiently addressed in the Company's risk appetite statement and a confidence level for technical provisions is clearly stated;
- the Appointed Actuary to strive for adoption of professional best practices for the calculation of risk adjustment.

1.6 Discounting of Technical Provisions

The IFRS 17 requires an insurance company to reflect the time value of money when estimating technical provisions by using appropriate discount rates, except in special circumstances. The discount rate can be determined using either a bottom-up approach (risk free + illiquidity premium) or a top-down approach (reference portfolio rate – credit risk adjustment).

With the bottom-up approach being the one most commonly used among insurance companies in the kingdom, the graph below shows the distribution of discount rates used by insurance companies under this approach.

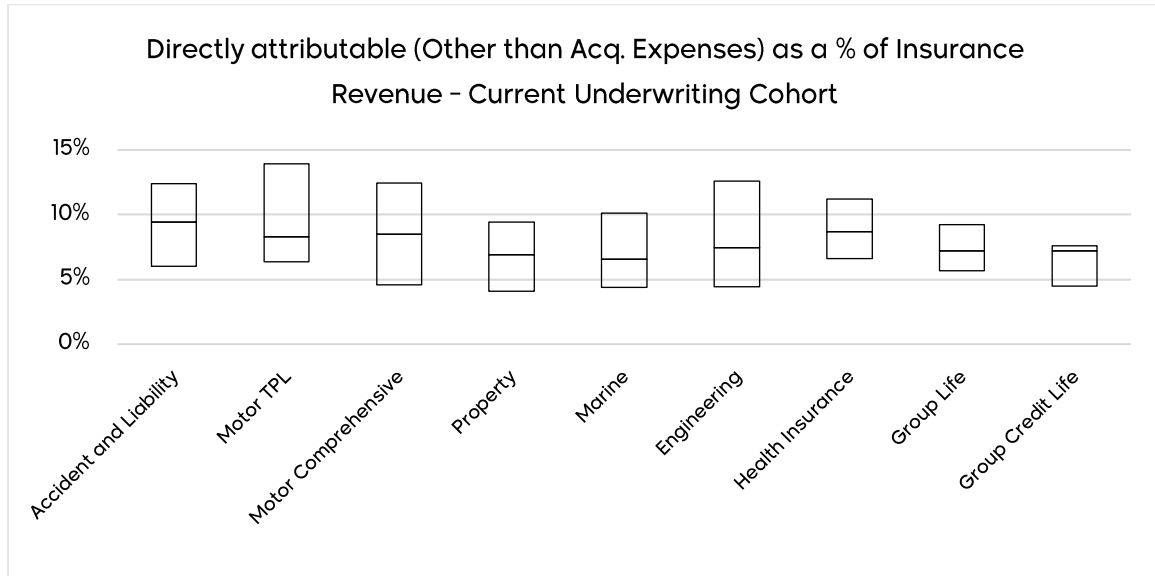


Material differences can be observed in the discount rates used for cash flows in later years. Given the similar nature of policyholder liabilities, it may be desirable to have better alignment of discount rates used by insurance companies. The IA will work with the sector towards attaining this alignment.

1.7 Directly Attributable Expenses

The IFRS 17 introduced the concept of directly attributable expenses and non-attributable expenses, with the former being charged directly to individual group of contracts and the latter being charged in aggregate to the overall business. The choice of attribution methodology is particularly important since it can have a direct bearing on onerosity determination for a group of contracts. Hence, guidance was issued by the Saudi IFRS 17 Working Group in the past with the aim of achieving broad consistency in the allocation approach. Where two companies follow a similar attribution approach, the level of directly attributable expenses are an indicator of the relative competitive position of each insurance company.

The graph below shows the directly attributable expenses as a percentage of insurance revenue for major lines of business.



Note: Acquisition expenses are excluded from the above statistics in order to avoid the impact of variable commission rates.

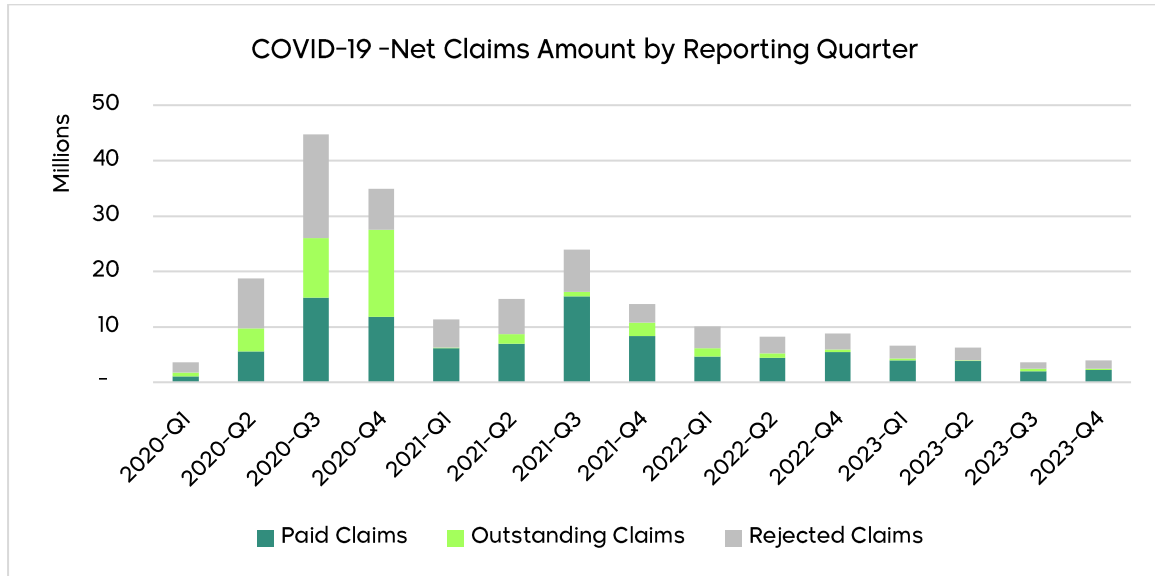
Among the dominant Motor and Health portfolios of insurance, Health has a relatively narrow interquartile range, whereas Motor TPL, where the competition is quite intense, has the widest interquartile range; interestingly, the median for both Motor & Health portfolios of insurance appears to have a similar value.

The IA expects

- the Appointed Actuary to deploy professional best practices in attributing expenses by portfolio of insurance that accurately reflect the day-to-day business activities of each unit within the insurance company
- the Appointed Actuary to work jointly with the Finance function when considering adoption of the guidance issued by the IFRS 17 Working Group; in case of deviation, if any, from that guidance, the two functions shall discuss, debate and document the rationale for the above deviation.

1.8 COVID-19 Claims Experience

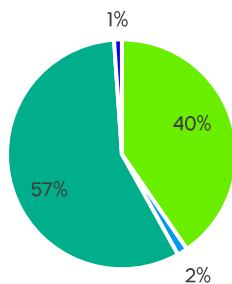
Since the early days of the pandemic in year 2020, additional reporting requirements were introduced for insurance companies so that claims emerging due to COVID-19, directly or indirectly, can be monitored and appropriate measures can be taken, if necessary. The graph below shows the status of reported claim amounts, split into paid, outstanding and rejected, at year-end 2023 by reporting quarter.



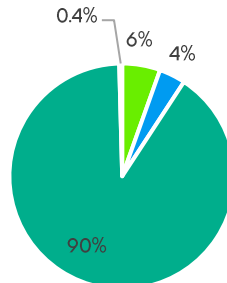
The reported COVID-19 claims showed a declining trend since Q3 2021, with the second half of 2023 showing a relatively benign experience. The overall net impact for insurance companies was significantly lower than the gross reported claims due to the majority of claims being ceded to reinsurers as well as due to a sizable percentage of claims being rejected. The cumulative net to gross ratio of COVID-19 incurred claims as at year-end 2023 was 36%, whereas the proportion of net claim amounts rejected was 35%. The net incurred claims were 0.13% of the cumulative net earned premiums for the affected lines of business for years 2020 to 2023. Thus, the overall net impact of COVID-19 pandemic remained minimal for the insurance sector.

The graphs below show the distribution of settled, outstanding and rejected claim amounts by portfolio on a net of reinsurance basis, in aggregate for all claims reported since the beginning of the pandemic till the year-end 2023.

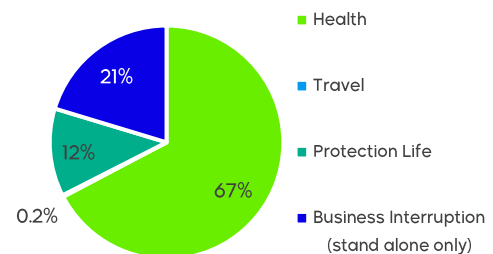
COVID-19 Net
Paid
Claims Amount



COVID-19 Net
Outstanding
Claims Amount



COVID-19 Net
Rejected
Claims Amount



The majority of paid and outstanding claim amounts relate to Life insurance, covering deaths attributed to COVID-19 or associated complications, followed by Health insurance claims. Among rejected claim amounts, the majority relate to Health insurance followed by Business Interruption insurance. While the cost of COVID-19 treatment was borne by the Government during the pandemic, as the intensity of cases reduced significantly, it was subsequently down listed from being a pandemic. Since then, the cost of COVID-19 claims is covered under the standard CHI policy and hence the treatment cost is borne by insurance companies going forward.

Based on the experience of COVID 19, the IA expects

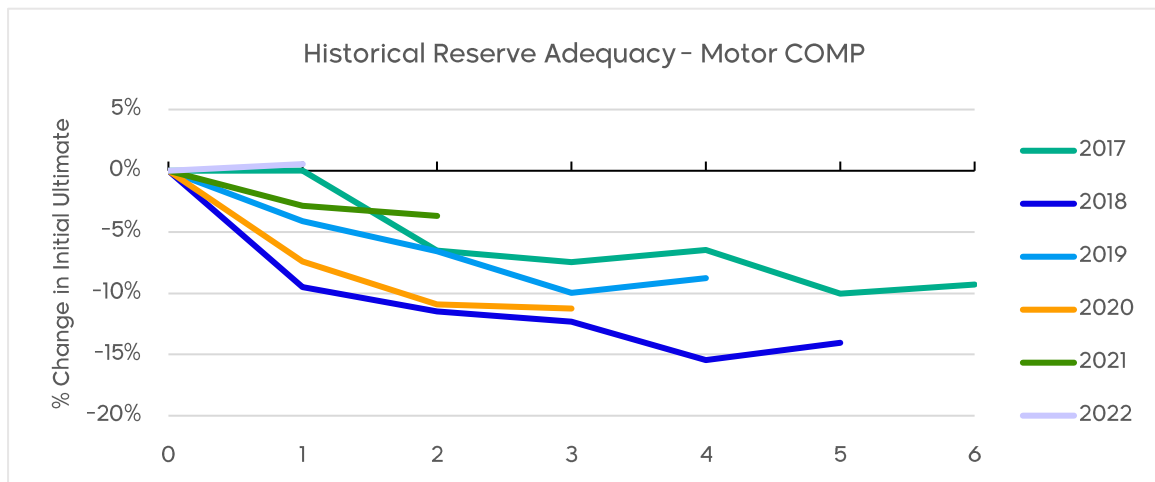
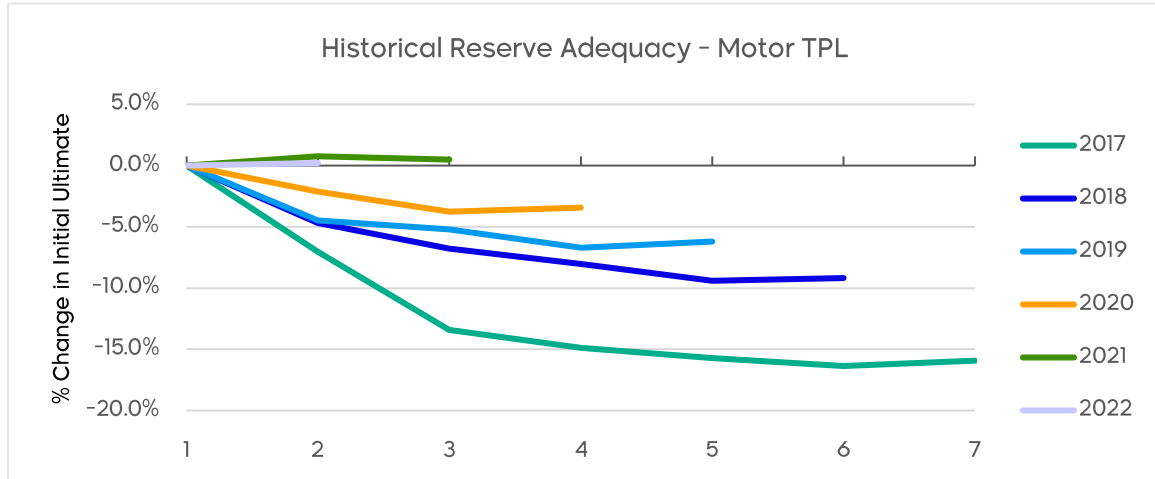
- insurance company management to ensure adequate risk management policies are in place, and learnings from the pandemic are appropriately reflected in strategic and operational aspects of the business
- the Appointed Actuary to assist the Risk and Underwriting functions in pro-actively identifying, quantifying, monitoring and mitigating risks that can have a major impact on the profitability of the business.

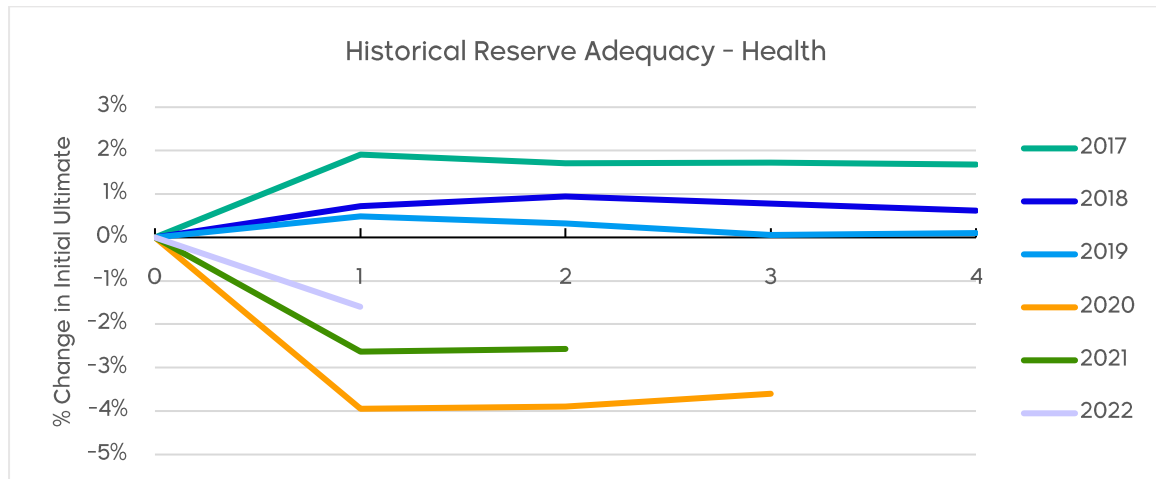
1.9 Adequacy of Actuarial Reserves

It is well-known for actuaries to typically err on the side of caution, particularly when faced with uncertainty. In actuarial reserving, actuaries have often used implicit prudence in estimates as a tool to cater for the potential volatility of incurred claims. With the introduction of IFRS 17, however, actuaries are

expected to follow a best estimate basis due to addition of an explicit allowance for reserve uncertainty in the form of risk adjustment.

As an indicator of redundancy / deficiency in historical reserves, the graphs below show the percentage of the change in ultimate claims over time for the last several accident years compared to their initial estimates of ultimate claims at for Motor and Health portfolios.





It can be observed that, for both Motor portfolios, relatively high redundancy in reserves observed in earlier years has reduced over time and, in line with the expectations with the adoption of IFRS 17, appointed actuaries appears to be moving towards the best estimates. On the other hand, Health portfolio presents a different picture, where deficiencies were recognized in actuarial reserves pertaining to accident years 2017-2019. Since then, reserve redundancies can be observed, particularly for accident year 2020 and to a lesser extent for accident year 2021, likely due to release of provisions initially made for COVID 19 as the experience turned out to be better than expected.

The IA expects that, with the implementation of IFRS17, appointed actuaries will use assumptions and methodologies that aim to produce the best estimate of insurance and reinsurance contract liabilities and assets.

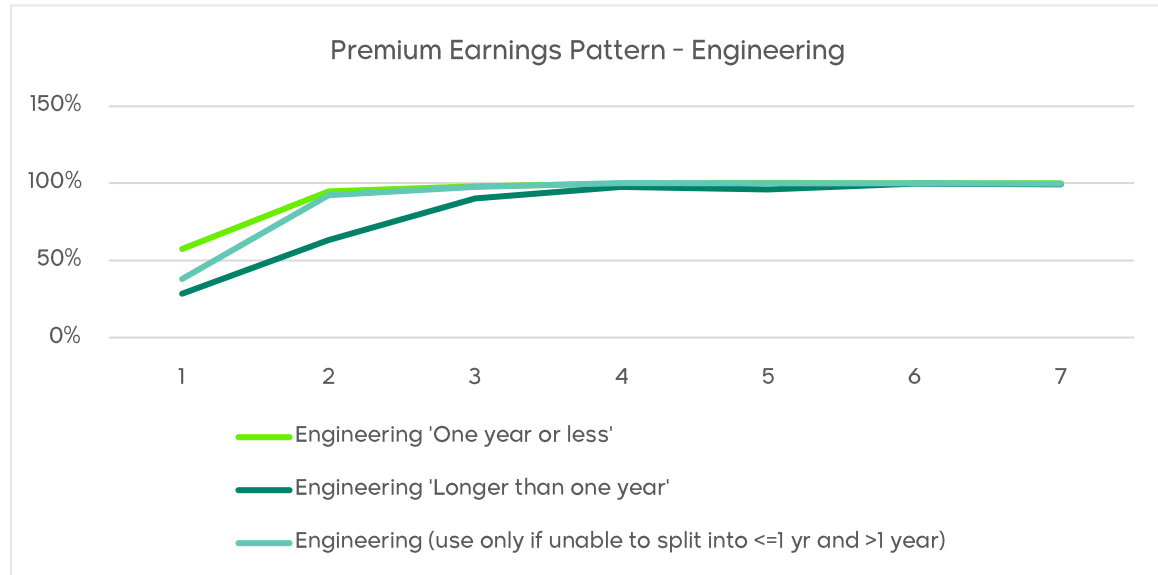
1.10 Actuarial reserving - areas for improvement

1.10.1 Premium Earnings Pattern

Engineering

As part of the technical provisions' reporting, appointed actuaries are required to disclose the premium earnings profile of the Company's Engineering portfolio. A new reporting requirement was added this year distinguishing between one-year or less policies (e.g., machinery break-down policies) and longer than one-year policies to get more precise earning patterns for the long-term increasing risk Construction-All-Risk/ Erection-All-Risk policies. The graph below shows the comparison of the average earnings profile used by insurance companies by

type of policy. The graph also shows the earnings profile used by those companies that were unable to split their Engineering portfolio into short term and long term policies.

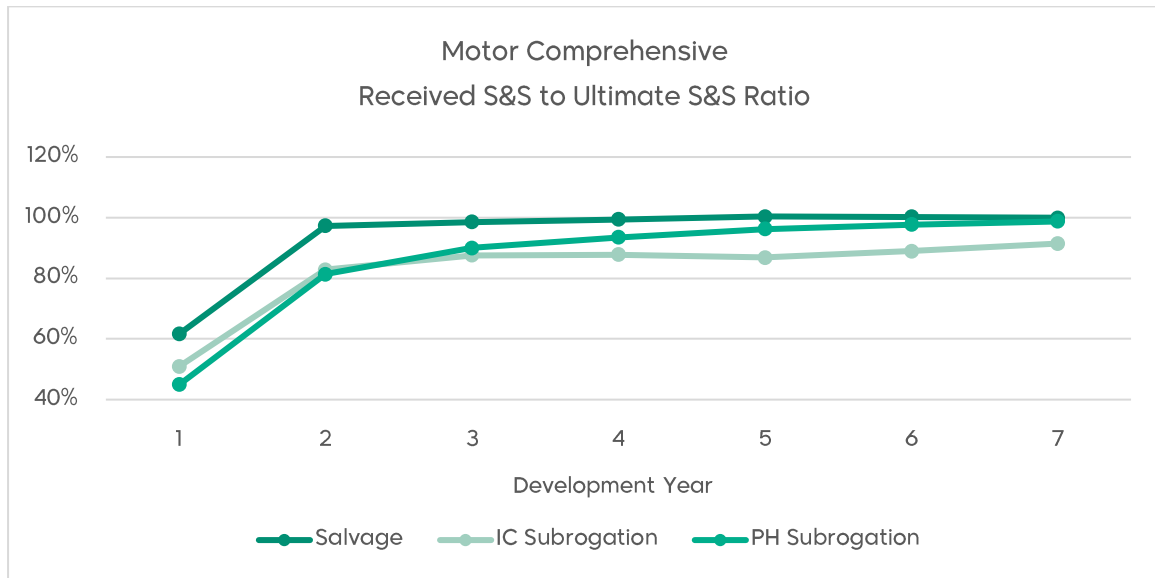


It can be observed that, within the Engineering portfolio, there are marked differences between the earnings profiles of short term policies and of long term policies, particularly during initial development periods. Hence, there is a risk that those insurance companies that are unable to split their policies by duration earn premiums at a rate that does not reflect the true emergence of risk in respect of the underlying policies, potentially distorting the recognition of profit or loss for those policies.

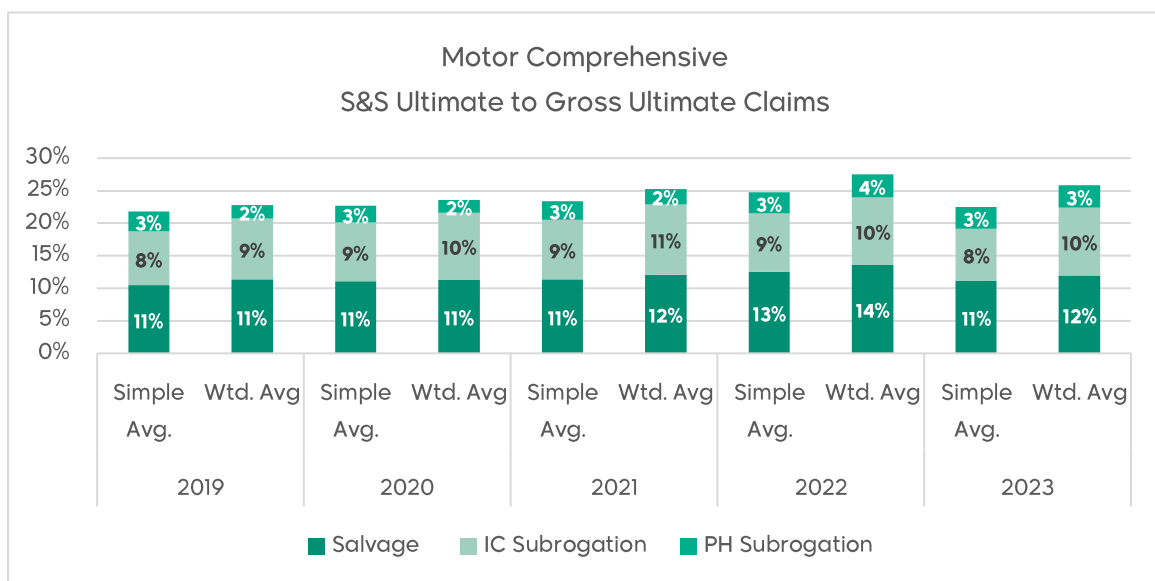
1.10.2 Salvage, Subrogation (Individual), & Subrogation (Insurance Companies)

The IA instructions require an Appointed Actuary to reserve separately for each individual recovery type, i.e., salvage, subrogation recoveries from individuals, and subrogation recoveries from insurance companies. The instructions are issued in light of the differences in the historical experience of each recovery type, differences in factors influencing each recovery type, and differences in the time taken in materializing each recovery type.

While a small minority of insurance companies have been unable to carry out the reserving analysis split by the recovery type on the grounds of inadequate data, the graphs below are in respect of the majority that has been able to perform the analysis at the required level of granularity as at year-end 2023.



The aggregate development pattern graph above indicates that recoveries from insurance companies (IC) and policyholders (PH) take longer than salvage recoveries. It is interesting to note that, unlike that reported in last year's Dear CEO letter where subrogation from policyholders appeared to have the slowest development, this year's statistics show that it is subrogation from insurance companies that appears to take the longest time to materialize fully. While on one hand, this may be surprising given that the introduction of Raseed system was aimed at expediting the inter-company settlements, on the other hand, some insurance companies mentioned having encouraging results after deploying pro-active recovery measures in respect of policyholders, possibly leading to the improvement seen above.



From the graph above, it can be observed that salvage has had the highest share consistently among all recovery types, and the proportion from salvage has been growing recently (until the latest accident year), possibly on the back of revised salvage agreements that many insurance companies have re-negotiated. It is possible that some of this increase is also driven by the global supply chain issues in the vehicle industry, making vehicle spare parts costlier.

Considering the above evidence, the IA expects all remaining insurance companies that have been unable to project salvage and subrogation recoveries separately to record the data in respect of recoveries at an appropriate level of granularity, and make sure that data available to the Appointed Actuary meets the reserving requirements. The IA also expects each Appointed Actuary to provide timely insights to the Company's recovery team based on the results of reserving exercises and continually identify areas for improving operational efficiency.

2. Experience Studies Report 2023

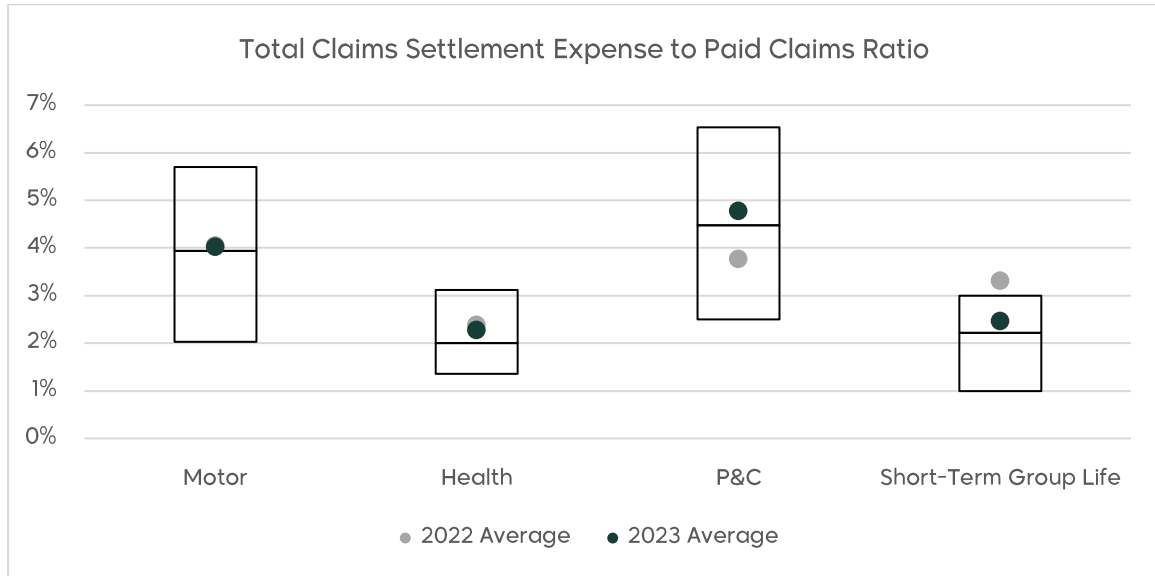
All appointed actuaries are required to carry out annual investigations in order to inform the assumptions used in estimating the technical provisions. The IA requires submission of experience studies report, containing the results of those investigations, typically in the fourth quarter of every year, so that those results can be used in assumptions-setting for the purpose of the year-end reserving exercise.

The sections below expand on the methodology and results in respect of individual assumptions.

2.1 Unallocated Loss Adjustment Expense (ULAE) Reserve

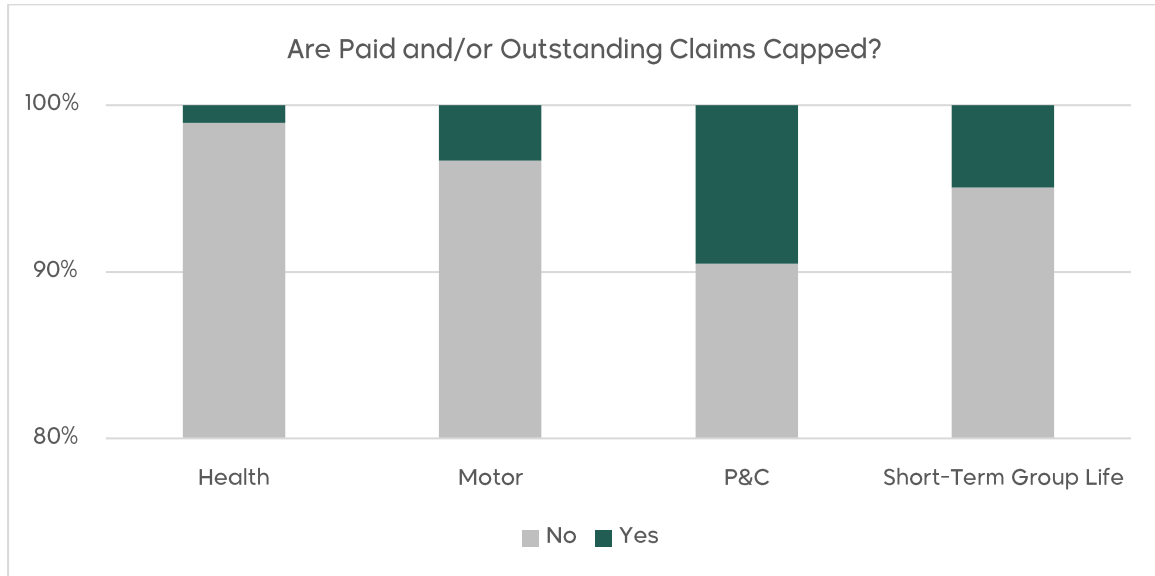
The IA requires all appointed actuaries to estimate an appropriate provision for expenses that will be incurred in the future in settling the incurred-but-yet-to-be-settled claims, comprising both outstanding and IBNR claims. The ULAE reserves are intended to cover a wide range of activities such as general claims management, administrative support, legal services, and technology infrastructure involved in claims processing, record-keeping and settlement.

A common actuarial technique for estimating the above provision is to refer to the expenses incurred in respect of the claims already settled, i.e., the ratio of paid claims settlement expenses to paid claims amount (Paid-to-Paid ratio). The graph below shows the range of Paid-to-Paid ratios derived by appointed actuaries for major portfolios.



It can be observed that P&C portfolio has the largest variation in the Paid-to-Paid ratio among insurance companies. As regards the median and average ratios, Health portfolio has the lowest values, possibly in part due to TPA expenses being considered as part of the acquisition cost since those are charged upfront. Moreover, compared to last year's results, the average ratio for Short-term Group Life portfolio has reduced, whereas it has increased for P&C portfolio. One possible reason for these changes could be the increased focus on expense assumptions under IFRS 17, leading to periodic refinement of those ratios.

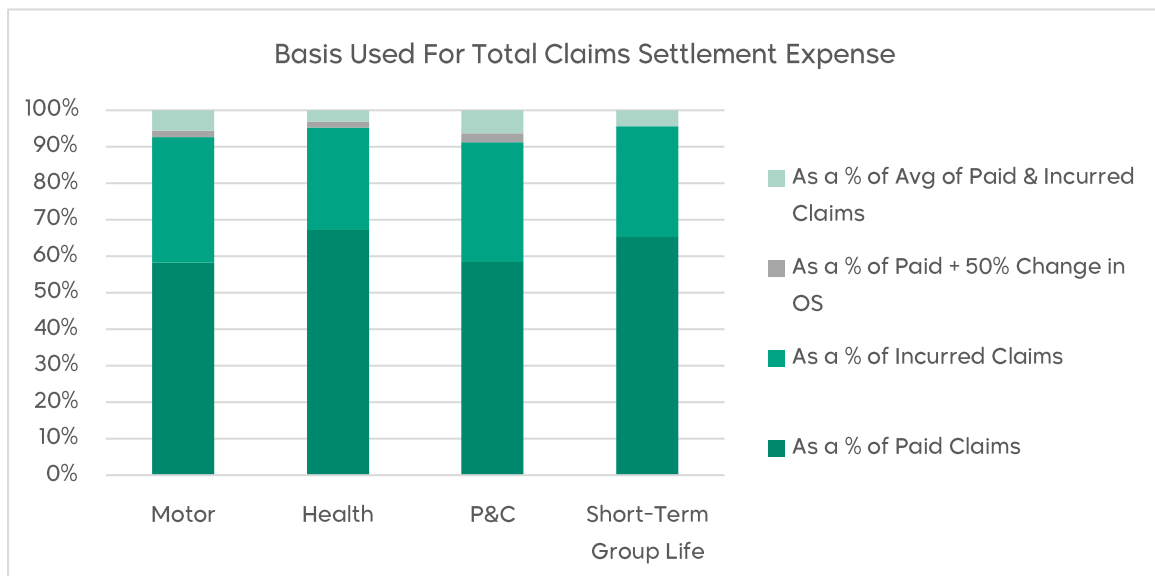
Moreover, if a company experiences a very large claim, the cost of settling that claim is unlikely to grow in direct proportion to the size of the claim. To recognize this likely scenario, when applying the ULAE percentage to the claim reserves in order to set the reserves for claims settlement expenses, some actuaries apply a cap on the individual claim amounts in order to avoid overstating this provision. The graph below shows the distribution of approaches used by appointed actuaries in this regard.



Compared to last year, when capping methodology was used by appointed actuaries for P&C portfolio only, this year the methodology has been extended to all major portfolios. The methodology has been more often used for P&C portfolio than others, understandably so, since it is exposed to much bigger losses than under Motor, Health or Short-term Group Life.

2.1.1 Basis used for Unallocated Loss Adjustment Expense (ULAE)

The graph below shows the range of bases used by appointed actuaries to estimate the provision for ULAE.

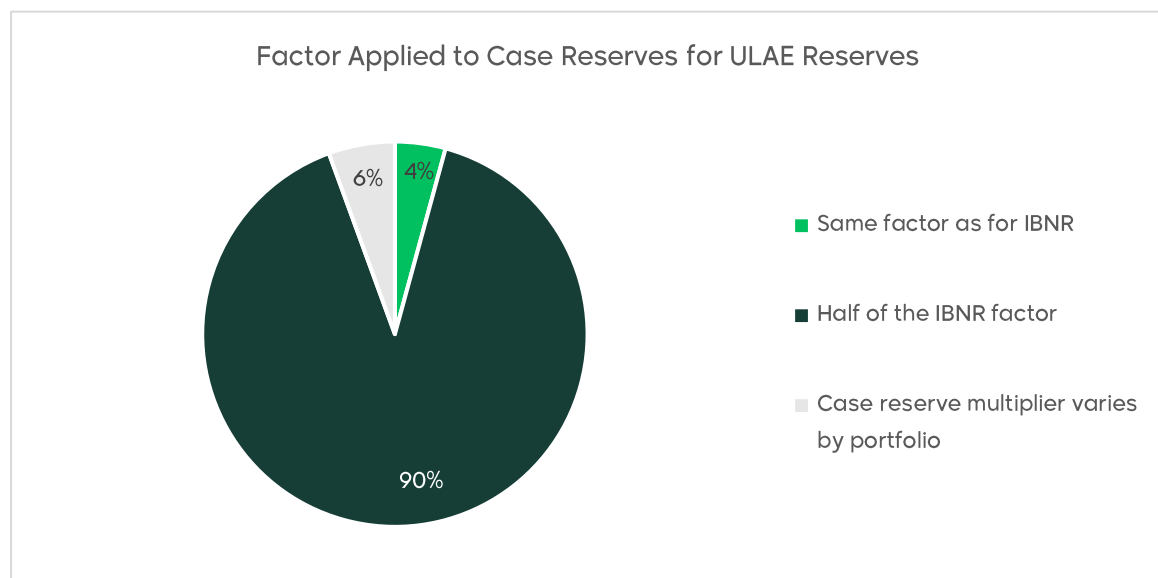


It can be observed that the paid claims basis was the most commonly used basis for each portfolio, followed by the incurred claims basis.

2.1.2 Factor applied to Case Reserves

When setting the provision for unallocated loss adjustment expenses, a usual consideration for actuaries is whether to differentiate between the outstanding claims and IBNR claims. Proponents of this differentiation argue that the expense provision should be lower for outstanding claims than for IBNR claims, since a part of total claims settlement expenses is already incurred in opening a claim and maintaining its record.

The graph below shows the distribution of portfolios based on whether the Appointed Actuary differentiated between the ULAE assumptions for outstanding claims and IBNR claims.



For the large majority of insurance portfolios, appointed actuaries apply a '50% of IBNR factor' to the corresponding portfolio's case reserves when determining the ULAE reserves. For a small but noticeable proportion, appointed actuaries assumed that the factor applicable to case reserves varies depending on the portfolio of insurance underwritten by an individual company.

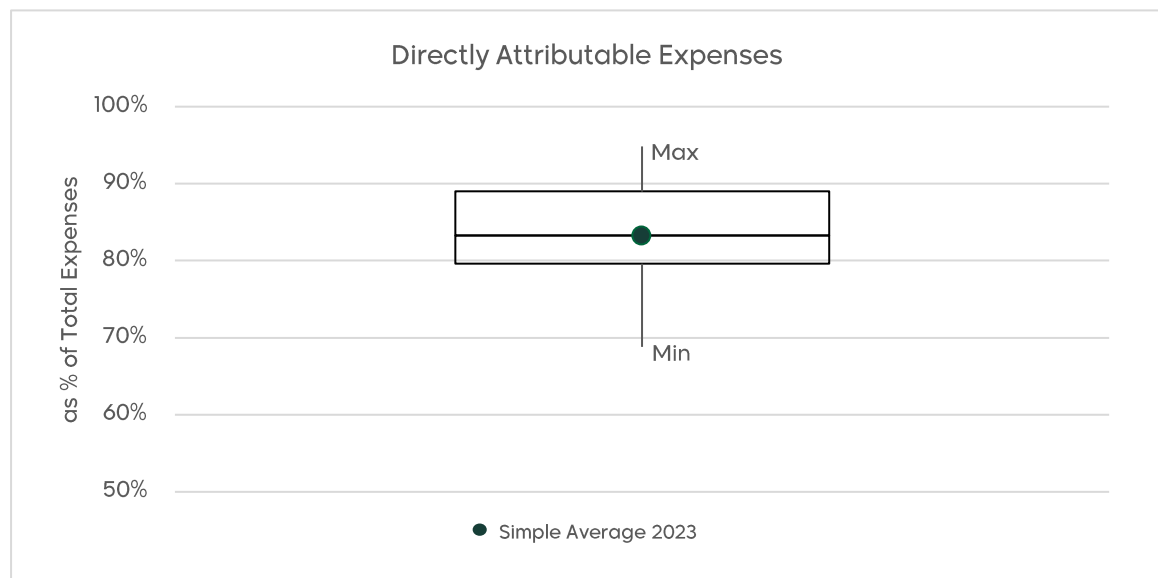
The IA expects each Appointed Actuary to continue to refine the calculation of unallocated loss adjustment expense reserves in light of the benchmarking comparisons and evolving industry best practices.

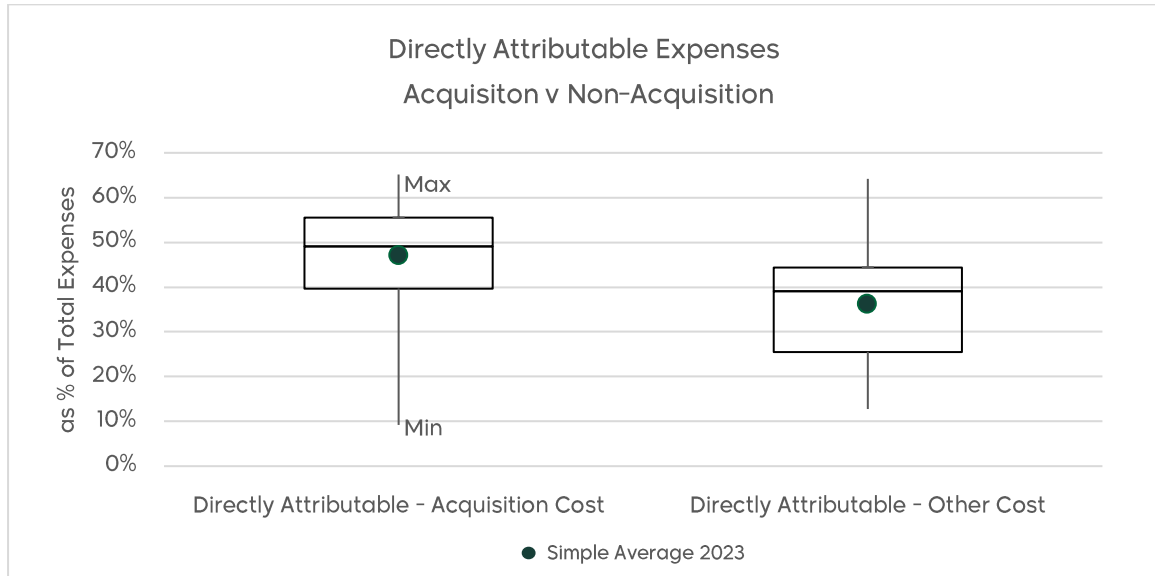
2.2 Expense Attribution

The IFRS 17 introduced the concept of directly attributable expenses and non-attributable expenses, with the former being charged directly to individual group of contracts and the latter being charged in aggregate to the overall business. The choice of attribution methodology is particularly important since it can have a direct bearing on onerosity determination for a group of contracts. Hence, guidance was issued by the IFRS 17 Working Group in the past with the aim of achieving broad consistency in the allocation approach. Where two companies follow a similar attribution approach, the level of directly attributable expenses can be an indicator of the relative competitive position of each insurance company.

2.2.1 Derivation of Expense Attribution Assumptions – Aggregate Level

The first graph below shows the results, at the aggregate company level, of the exercise performed to derive expense attribution assumptions for use in the estimation of technical provisions. The second graph shows the split of directly attributable expense assumption into acquisition and non-acquisition expenses.



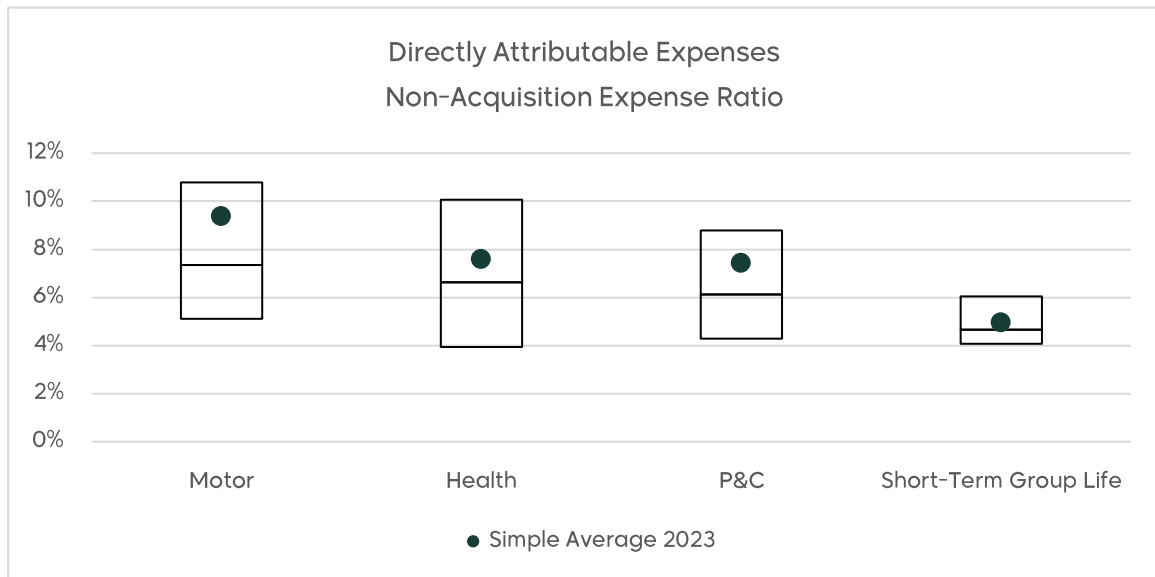
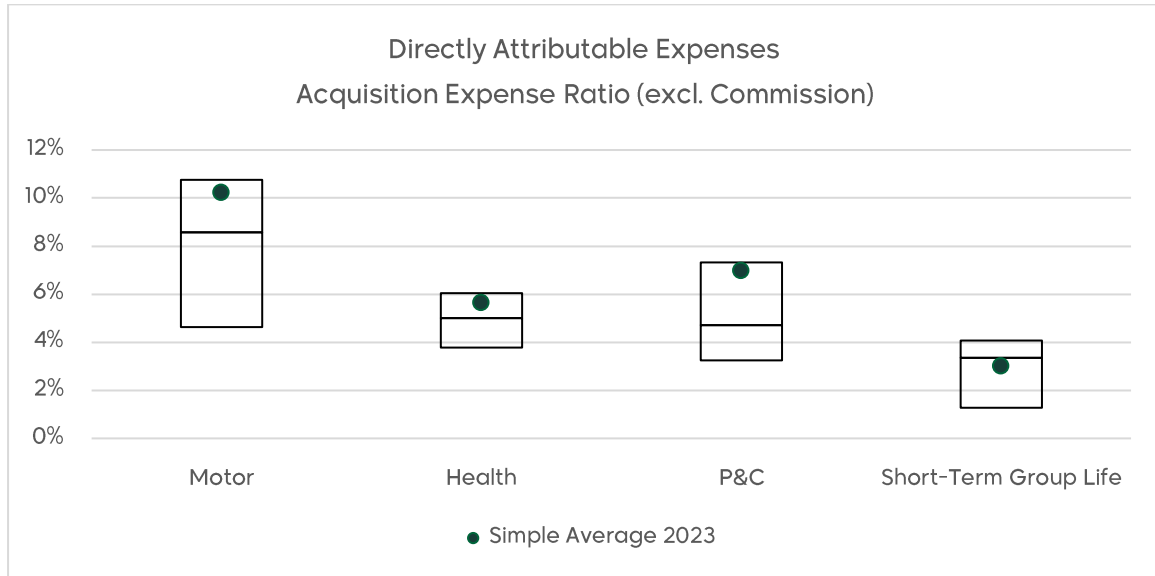


The narrow interquartile range of 80%-90% for directly attributable expense assumption indicates broad consistency among insurance companies in deriving this assumption. There is at least one outlier insurance company attributing less than 70% of total expenses to individual groups of contracts, while on the other hand, there is at least one insurance company attributing nearly 95% of total expenses to individual groups of contracts.

The split of expenses between acquisition and non-acquisition is an important consideration from an accounting policy choice perspective as it influences the ability to decide on whether to defer acquisition expenses or to recognize those immediately. The relatively wide interquartile ranges suggest wide variations among insurance companies in this categorization approach.

2.2.2 Attributable Expense Assumptions by Portfolio

The graphs below show the assumptions derived for expense attribution by major portfolios of insurance, separately for acquisition (excluding commission) and non-acquisition directly attributable expenses.

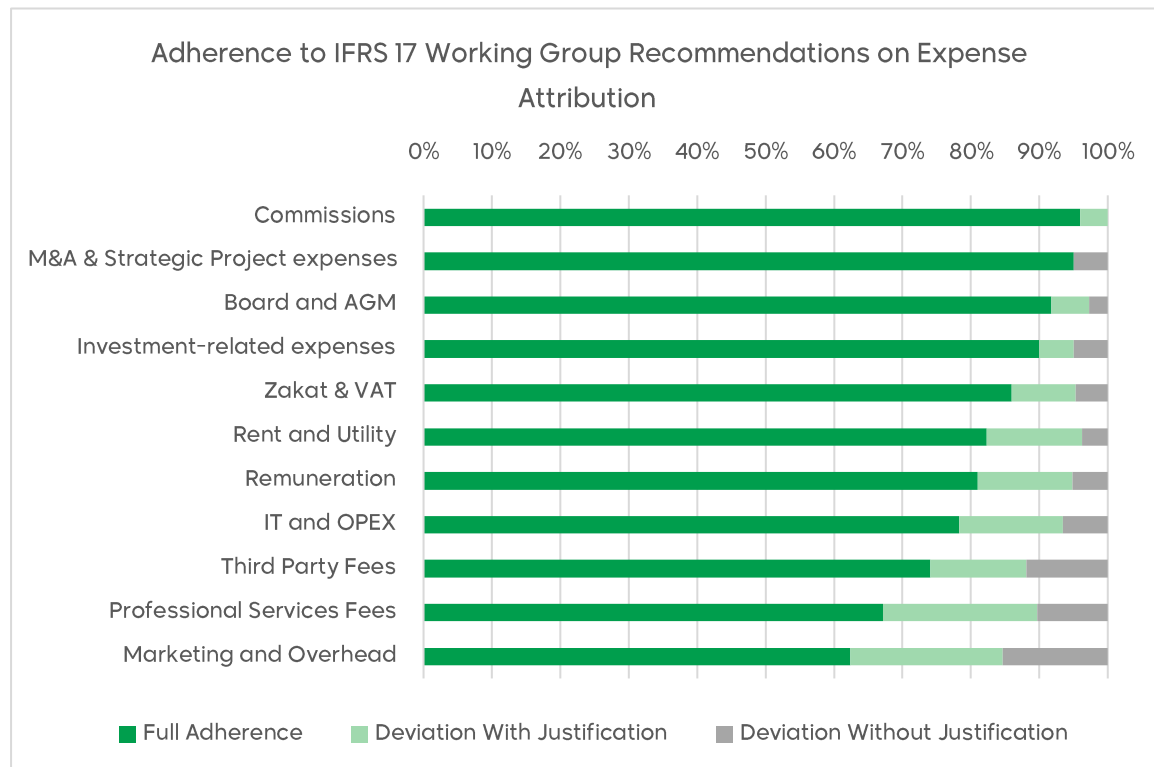


For acquisition expenses, excluding commission, it can be observed that Motor portfolio has the largest variation in the directly attributable acquisition expenses cost, whereas Health portfolio has the least variation. As regards the median and average ratios, Motor has the highest values while the Short-term Group Life has the lowest values.

In terms of the non-acquisition directly attributable expense assumption, it can be observed that, except for Short-term Group Life, all other portfolios have significant variations among insurance companies. As regards the median and average ratios, Motor portfolio has the highest values while the Short-term Group Life has the lowest ratios.

2.2.3 Adherence to IFRS17 Working Group Recommendations on Expense Attribution

The graph below summarizes the extent of adherence, as reported by appointed actuaries in the Experience Study report, by insurance companies to the recommendations of IFRS 17 Working Group regarding the attribution of expenses incurred under various heads.



It can be observed that, under each head of expense, at least 60% of insurance companies adhered to the recommendations of the Working Group. And where insurance companies deviated from those recommendations, there is only a small minority that did not explain the reasons behind those deviations.

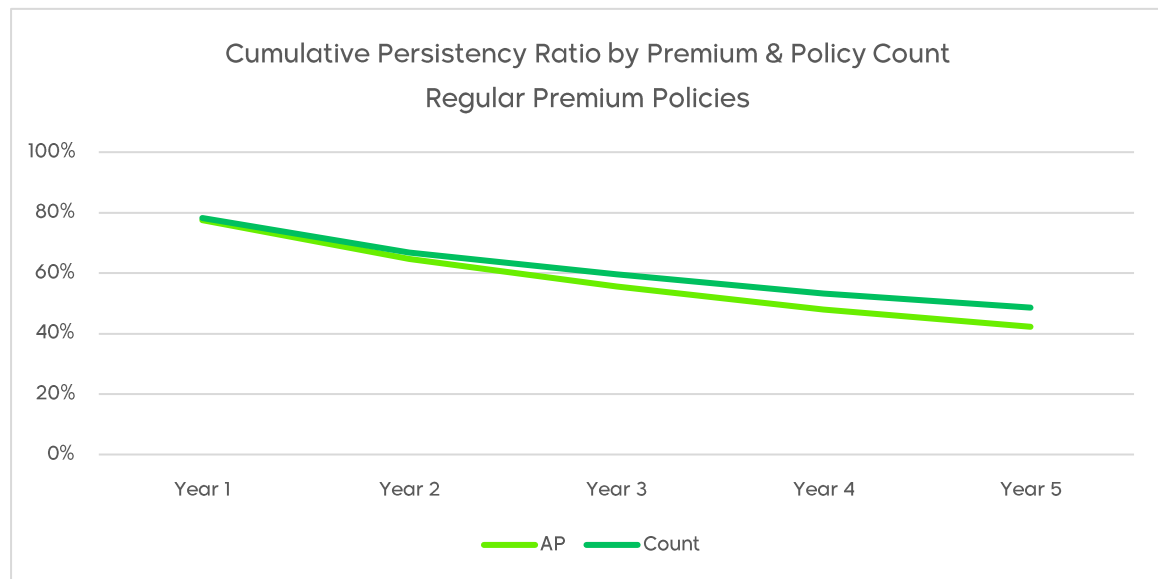
The IA expects

- the Appointed Actuary to work closely with the Finance function to define an appropriate expense attribution framework, with due consideration of market benchmarks, own business profile, and operational set up.
- where the Insurance Company has deviated from the recommendations of the IFRS 17 Working Group, the Appointed Actuary to document or seek

documentation from the Finance function of the reasons supporting those deviations.

2.3 Persistency (Long term Life)

For long term Life insurance business, the graph below shows the weighted-average persistency ratio at each policy duration since issue for all insurance companies in aggregate, both by (annualized) premium and by policy count, for regular premium products.

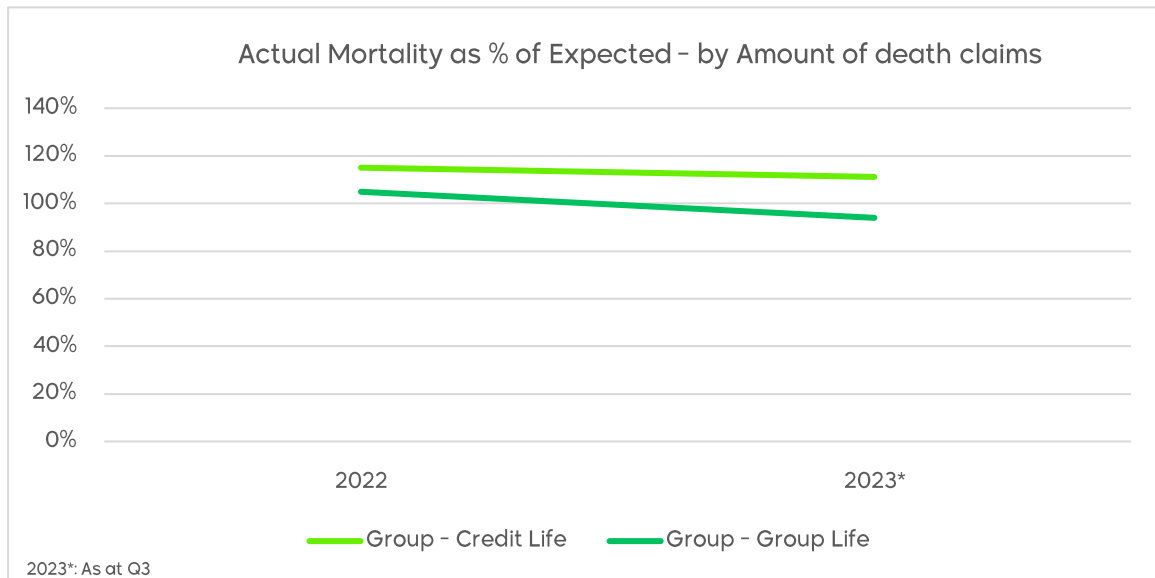
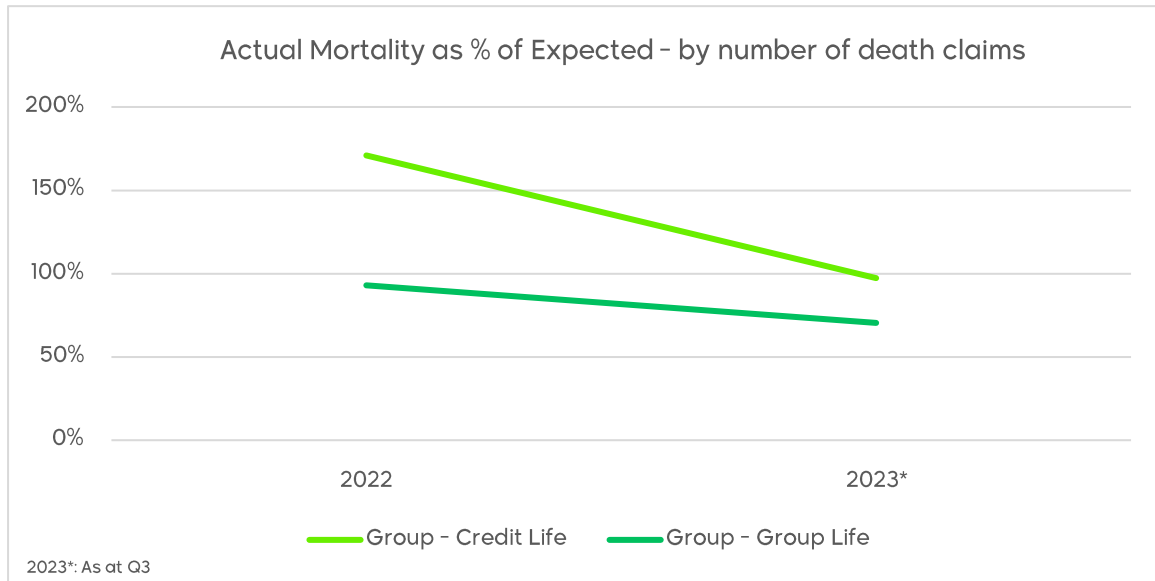


It can be observed that the average customer retention remains very low, likely indicating poor customer satisfaction. By the end of the fifth year, more than half of the total policies issued lapse. There is no marked difference between the above measure by premium and by policy count, implying that both high premium policyholders and low premium policyholders exhibit similar levels of dissatisfaction.

The IA 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.

2.4 Mortality (Group Life and Group Credit Life)

The graphs below show the comparison of 'actual mortality' experience with 'expected mortality' based on the assumptions used by appointed actuaries for all insurance companies in aggregate, in terms of both the number of claims and the amount of claims.



The actual mortality experience by number of death claims shows a significant improvement compared to that observed last year and is closer to that estimated by appointed actuaries, especially for Group Credit Life business.

The actual mortality experience by amount for both lines of business compared to that expected has been relatively stable over the last two years.

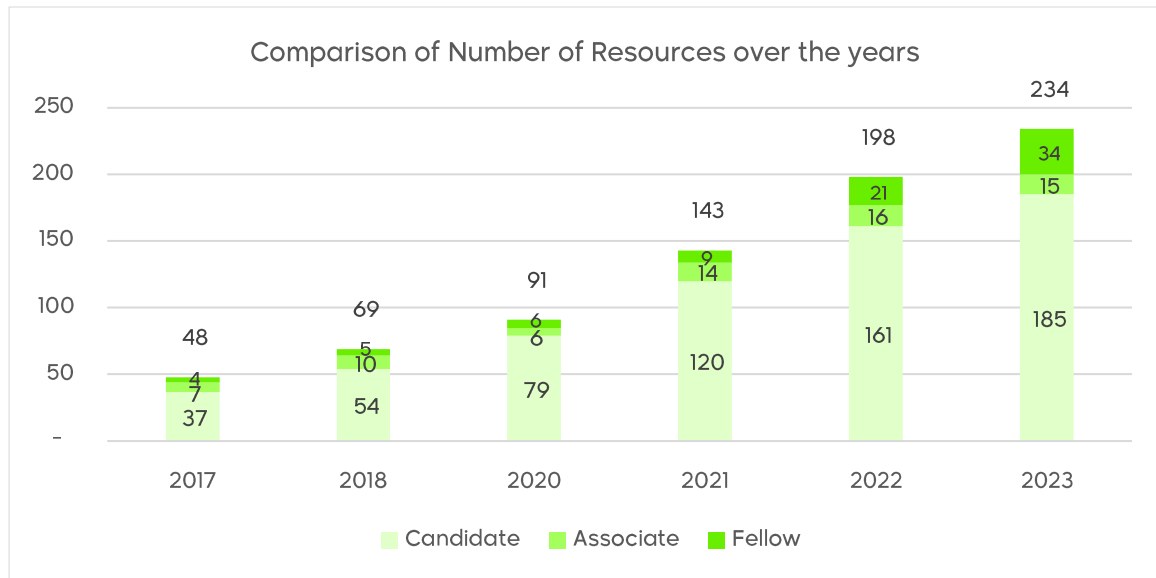
The IA expects the Appointed Actuary to continue to closely monitor the emerging mortality experience and, in conjunction with the Underwriting function of the insurance company, consider improving the pricing and/or underwriting basis as necessary.

3. Actuarial Resources in Insurance Sector

3.1 Growth and Distribution of Actuarial Resources

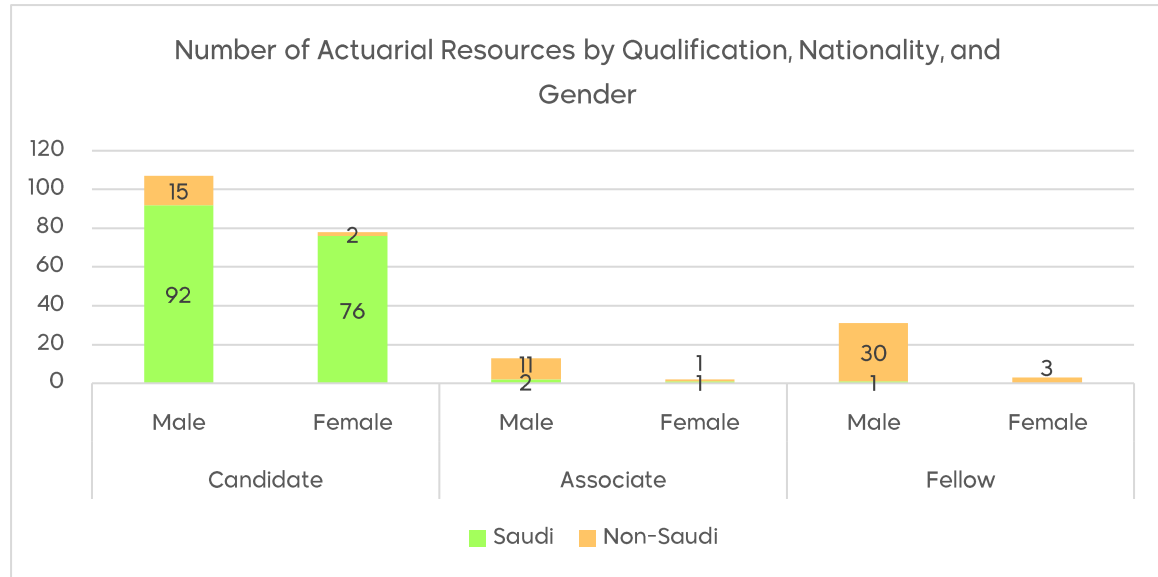
Recognizing the importance of the actuarial profession in sustainable and technically-sound development of the insurance sector, specific measures were introduced in the Actuarial Work Rule, 2020 in order to boost the actuarial resources in the sector. The measures included establishment of an Actuarial Function at each insurance company, recruitment of a Fellow actuary as well as at least three Saudi actuarial candidates, and introduction of a training and development policy by each insurance company for its actuarial cadres. Similar expectations were set out for Actuarial Service Providers as part of the licensing requirements.

The graph below shows the growth of actuarial resources at insurance companies and actuarial service providers since 2017.



While there has been a healthy intake of actuarial candidates year-on-year, the most striking feature of the above graph has been the rapid increase in the number of Fellow actuaries over the last two years. This is an encouraging development, implying growing technical sophistication of the insurance sector and signaling continued upwards push in the standards of actuarial practice going forward.

The graph below shows the distribution of actuarial resources by gender, nationality and qualification at year-end 2023.



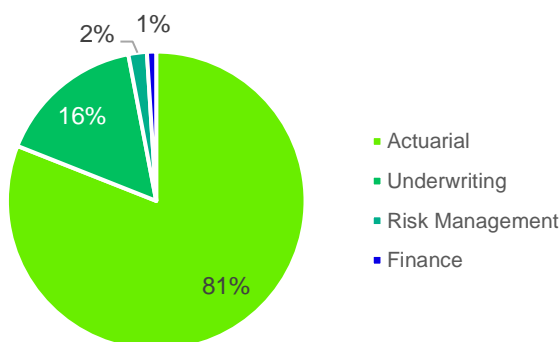
It can be seen that the above measures have injected a healthy number of Saudi actuarial candidates, both males and females, into the profession. Under the guidance of recently-recruited Fellow actuaries, it is expected that many of those candidates will progress rapidly, both academically and technically, and become Fellow actuaries in the near future. Moreover, female actuaries are now visible in every tier, and the balance in higher tiers is expected to improve over time as and when currently-significant number of female actuarial candidates move up into Associateship and Fellowship cadres.

3.2 Role of Actuarial Resources at Insurance Companies

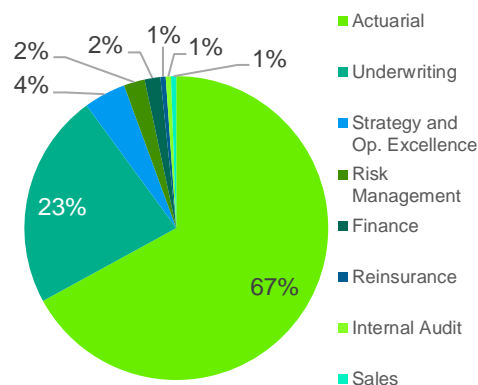
In the early days of the actuarial profession in the Saudi insurance sector, actuarial resources were largely confined to the Actuarial function. Over time, as the numbers increased and unique actuarial skills got greater recognition, insurance companies started deploying actuarial resources beyond the core Actuarial function.

Below is a comparison of actuarial resources by their function at insurance companies in years 2022 and 2023.

Distribution by Department (2022)



Distribution by Department (2023)

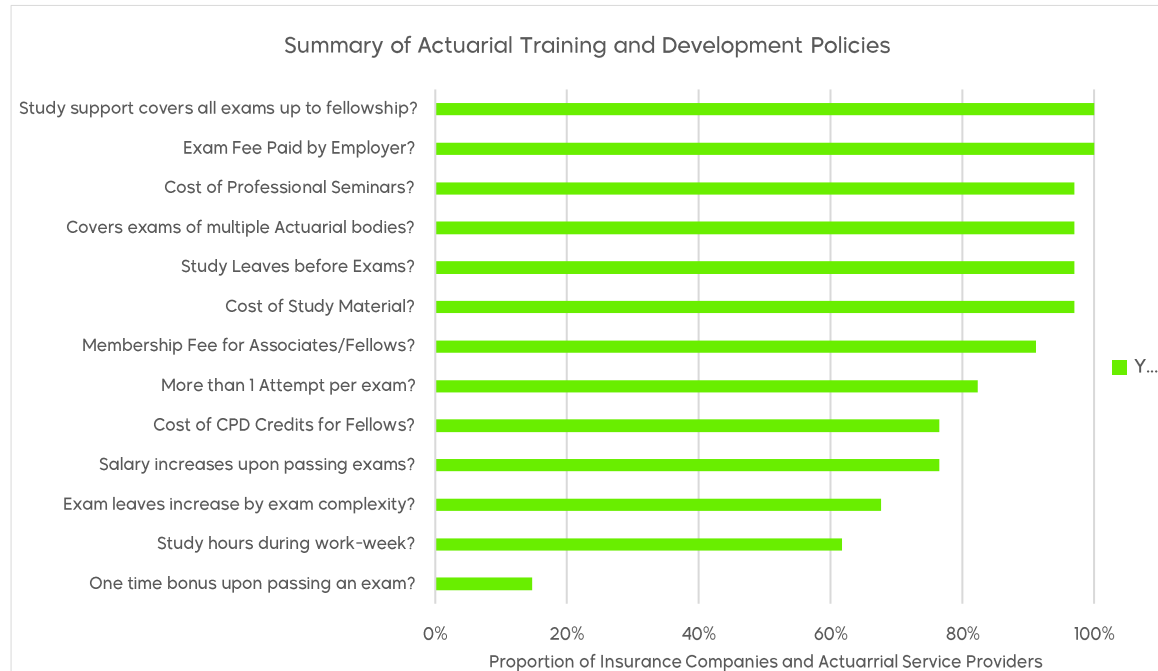


It can be observed that the role of actuaries at insurance companies is expanding well beyond the core Actuarial function, and actuaries are being placed in many new roles. While this expansion is an encouraging sign for the actuarial profession, it also puts additional responsibility and challenge for those operating in non-traditional areas. In order to uphold the high standards of the actuarial profession, it may be highly desirable that work of actuarial resources in wider areas has adequate supervision of a Fellow actuary at the insurance company. It is also essential that actuarial resources working in other areas continue to get necessary academic support and training in their journey towards becoming a Fellow actuary.

3.3 Actuarial Study Support Program

In line with the global practice of employers providing adequate support in nurturing the actuarial profession, under the Actuarial Work Rules 2020, all insurance companies were required to roll out an appropriate training and development policy for their actuarial personnel so that the tough grind required to become a Fellow actuary can be adequately supported and incentivized.

The graph below shows a summary of training and development policies adopted by insurance companies and actuarial service providers as at year-end 2023.

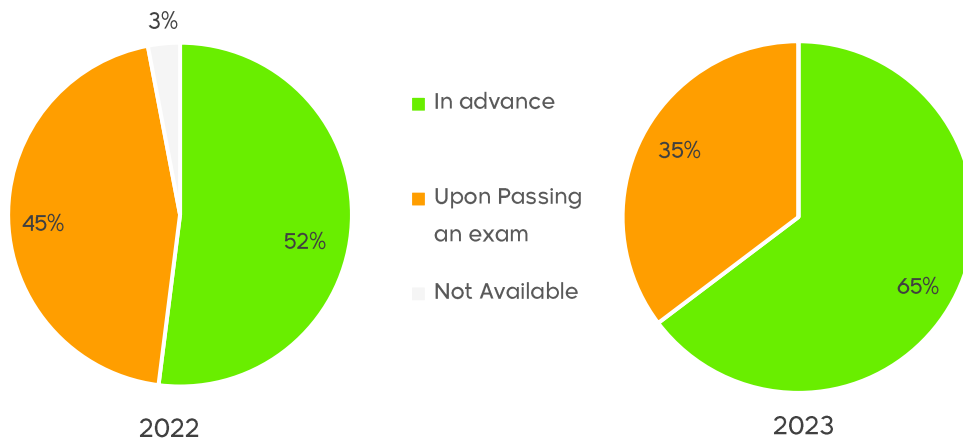


While a broad alignment can be observed among employers in many training and development areas, large differences are observed in some areas. Moreover, compared to last year, we have observed a marked reduction in the proportion of employers offering study hours during a work-week. While there have been concerns expressed by some employers as regards the high turnover of actuarial candidates, it is important to realize that the above differences in training and development policies can act as a catalyst for a candidate's continuity (or otherwise) with an employer.

Moreover, the progress and morale of actuarial candidates can be easily influenced by the way a particular policy is implemented.

Last year, we had identified the policy for reimbursement of exam fee as an area of concern. The graph below shows, where employers stated they bear the cost of exam fee, whether it is paid in advance or reimbursed only upon passing an exam.

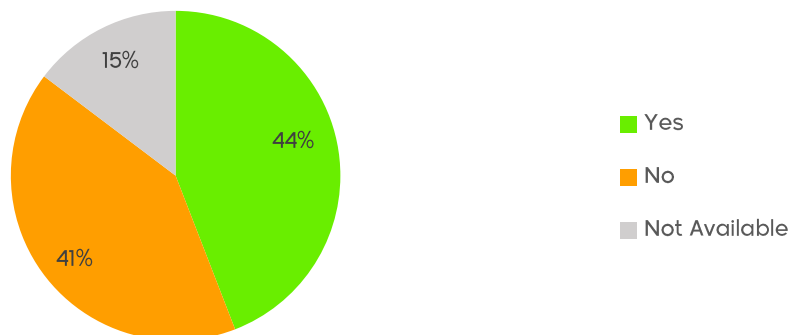
Where the exam fee is borne by the Employer, whether it is paid in advance
Or reimbursed upon passing an exam only?



Compared to last year's survey, while there is an improvement in the number of companies that reimburse their employees in advance of taking an exam, there is still a significant proportion of employers that reimburse only upon passing the exam. While the policy of 'reimbursement upon passing only' may have been introduced by some employers to ensure a candidate takes each attempt seriously, this policy has the potential to slow down a candidate's progress due to the substantial cost of each actuarial exam. On the other hand, the policy to reimburse the exam fee in advance may accelerate a candidate's progress as one is not distracted by the risk and burden of losing substantial exam fee.

Another area of concern identified in the latest survey of actuarial resources is the policy around reimbursement of exam fee when a candidate passes the exam after exceeding the maximum number of permissible attempts. The graph below shows the summary of relevant statistics from the survey in this regard.

If an exam is passed in an attempt that exceeds the maximum permissible under the Company policy, does the Company reimburse the Employee for the exam fee upon passing it?



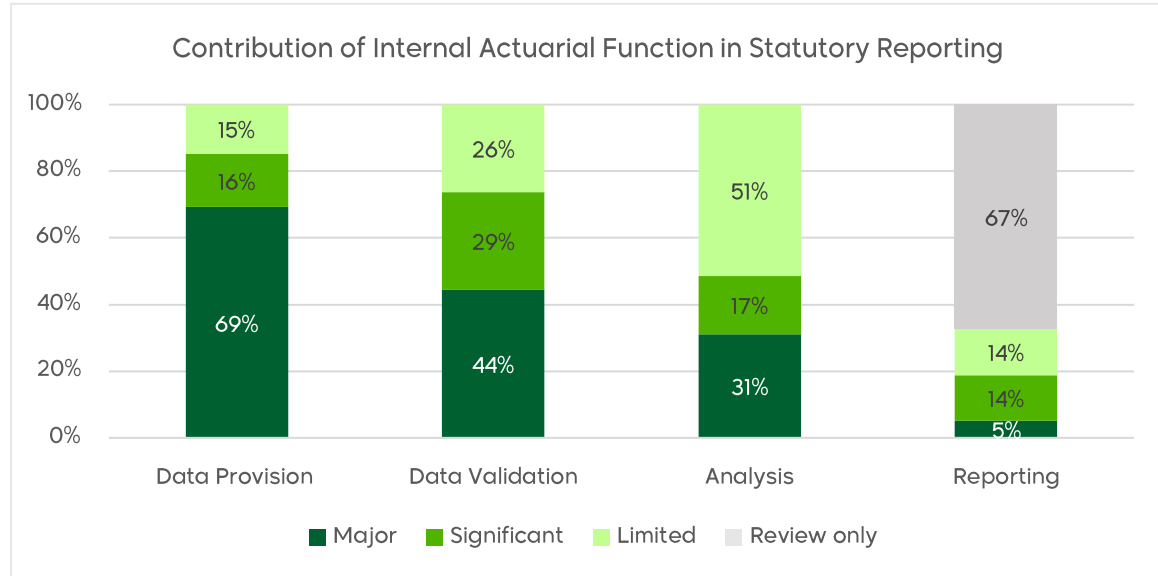
Nearly one-half of all employers have a policy where they do not reimburse the exam fee if an employee passes an exam after exceeding the maximum attempts specified in the employer's policy. It must be recognized that, given the high complexity of actuarial exams, it is not unusual for candidates to have several attempts before passing an exam. The policy of not reimbursing at all if a candidate exceeds the maximum number of permissible attempts may discourage a candidate from pursuing the actuarial studies further.

3.4 Contribution of Internal Actuarial Function to Statutory Reporting

An additional area that has been included in this year's survey is the extent of involvement of the internal Actuarial function in producing those actuarial reports which fall under the statutory responsibility of the Appointed Actuary of an insurance company.

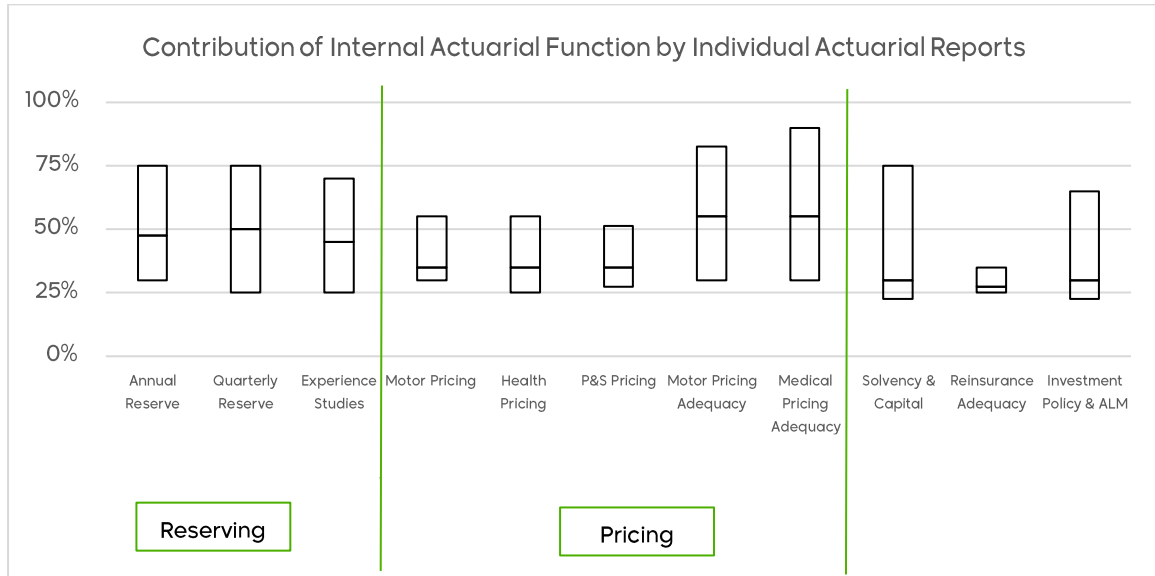
With the growing number of actuarial resources at insurance companies, including Fellow actuaries, the IA has been encouraging the Heads of Actuarial Functions to bring inhouse at least part of the work involved in the production of statutory reports in liaison with the Appointed Actuary. This is expected to provide the internal actuarial team with hands-on experience of professional work and thus a good learning opportunity, as well as enhancing the quality and reliability of actuarial outputs through close interaction with and input from other functions of an insurance company.

The graph below summarizes the extent of involvement of insurance companies' internal Actuarial function in respect of statutory actuarial reporting, in areas of data provision, data validation, actuarial analysis and reporting.



It is evident from the above that the majority of internal Actuarial functions are heavily involved in processes relating to data only, and there is limited involvement in performing technical analysis behind an actuarial report or in the preparation of the actuarial report itself.

The graph below shows the range of contributions by internal Actuarial functions towards individual actuarial reports prepared by the Appointed Actuary for statutory submissions relating to year 2023.

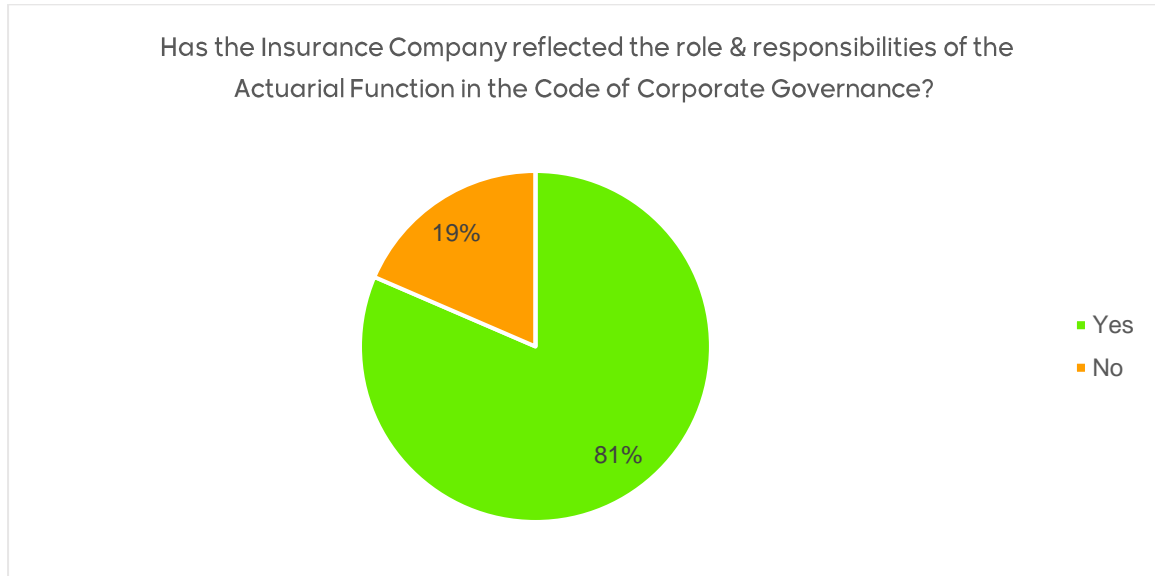


It can be observed that the extent of contribution by internal Actuarial functions varies widely among insurance companies. For those Actuarial functions sitting towards the lower end of the interquartile range, while some of this could be attributable to inadequate resources within the Actuarial function, it could also draw attention of some towards potential areas for improvement.

The highest median values are observed in respect of Reserve reporting, followed by Pricing reports, attributed mainly to Pricing Adequacy reports. The lowest median value is observed for Reinsurance Adequacy reports, with medians for Investment & ALM and Solvency & Capital reports following closely.

3.5 Compliance with AWR

The Actuarial Work Rules 2020 required that, upon establishing an Actuarial function, an insurance company must update its code of governance to reflect the role and responsibilities of the Actuarial Function. The graph below shows the number of companies that have reported they are complying with the above requirement.



It can be observed that a small but noticeable proportion of insurance companies are yet to comply with the above requirement. There is a risk that this could lead to inefficiency, lack of accountability, and potential conflicts within the organization.

The IA expects

- management of insurance companies to effectively utilize input of actuaries in all technical areas, as it deems fit; for actuarial resources working in Other-than-Actuarial functions, it is important that sufficient link with the Actuarial Function is maintained;
- 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, with due consideration of benchmark comparisons with other employers and, where gaps are identified, seek to improve and enhance the existing actuarial training and development policy, particularly in those areas where we have expressed concerns under Section 3.3 above.
- the Head of Actuarial Function to ensure increasing involvement of the internal actuarial team in production of statutory actuarial reports over time in liaison with the Appointed Actuary, with the aim of giving more hands-on experience to the internal actuarial team as well as enhancing the quality and reliability of actuarial outputs through close interaction with and input from other functions of an insurance company;

- management of insurance companies to ensure that the code of corporate governance adequately reflects the role and responsibilities of the Actuarial Function.

Copy to:

- Appointed Actuaries
- Heads of Actuarial Functions