

# Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

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## Financial Condition Report "FCR" Submission for 2018

This circular refers to the Insurance and/or Reinsurance Company's "Company" annual Financial Condition Report "FCR" submission for 2018. Reference is made to Cooperative Insurance Companies Control Law's Implementing Regulation Article (20) part "Second" and "Third", Article (69) Part (1), and Article (28) of the Actuarial Work Regulation.

### Submission deadlines

The Company must submit the FCR to SAMA by **28 February 2019** along with the FCR Reporting Template. However, the following documents shall be submitted as per the below timelines:

- a. **31 January 2019** - Reserving section of FCR Reporting Template duly filled in, based on the results of the reserving exercise as at 31 December 2018 – Appendix 1
- b. **7 February 2019** – Actuarial Reserve Report as at 31 December 2018 (this will be a subset of the FCR)

### FCR Contents

#### 1. Data:

- a) A description of the data used in the analysis should be included in the report.
- b) Adjustments to the raw data by the Company or the Appointed Actuary should be explained.
- c) Any issues regarding consistency, completeness, or accuracy of data should be documented. Data validation checks carried out should be described. The report should clearly identify the data issues resolved and those still outstanding when the report was produced.
- d) Reconciliations should be carried out, at a minimum, for Gross Written Premium, Net Written Premium, Gross Earned Premium, Net Earned Premium, Gross Claims Paid, Gross Claims Outstanding, Net Claims Paid and Net Claims Outstanding, Salvage and Subrogation. Reconciliations should be against financial data, the previous years' FCR, and pricing report data where applicable.
- e) It is not sufficient to rely on Reconciliations in validating the data. Other data checks to be carried out are left to the professional judgement of the Appointed Actuary. In particular, the Appointed Actuary should comment on
  - a. the accuracy of data relating to Outstanding Salvage & Subrogation recoveries, and all validation performed should be documented.
  - b. the claims backlog and its comparison with historical trend

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- f) A statement on the overall quality of data, encompassing its accuracy, appropriateness and completeness should be included.

### 2. Data Deficiency Reserve

- a) All companies are required to provide the required data to their Appointed Actuary in a format that allows sufficiently detailed analysis to be carried out.
- b) Medical Expense Insurance claim data must be provided to the Appointed Actuary in a format that allows monthly paid and incurred claims delay tables to be constructed. The Appointed Actuary should use professional judgement to decide on the appropriate granularity of data to use.
- c) If the Company is unable to provide medical claims data in a format that allows monthly paid and incurred claims delay tables to be constructed, then it must establish a Data Deficiency Reserve of 5% of Medical Expenses Insurance Net Written Premium.
- d) For all other products, except for long term Protection and Savings business, data must be provided to the Appointed Actuary in a format that allows quarterly paid and incurred claims delay tables to be constructed. The Appointed Actuary should use professional judgement to decide on the appropriate granularity of data to use.
- e) If the Company is unable to provide data for any other products or lines of business, except for long term Protection and Savings business, in a format that allows quarterly paid and incurred claims delay tables to be constructed for that product or line of business, then it must establish a Data Deficiency Reserve of 5% of the relevant Net Written Premium.

### 3. Unearned Premium Reserve (UPR)

- a) For all one-year policies, except for Marine Cargo Open Cover policies, the UPR must be determined on a 1/365th basis, based on the assumption that the risk is uniform over the policy year.
- b) For Marine Cargo Open Cover policies, where dates of voyages are usually not available, UPR shall be estimated using the last three months' premium for the relevant period as per Article 69(2) of Implementing Regulation.
- c) For shorter-than-one-year Marine Cargo policies, UPR shall be determined:
  - i. Using straight-line method over the policy term as in (a) above;  
or
  - ii. In the absence of data required for (i) above, using the last three months' premium for the relevant period as per Article 69 (2) of Implementing Regulation.

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- d) For Engineering Construction projects with policy terms in excess of one year, the Appointed Actuary shall assume that the risk will increase linearly over the policy term in determining the UPR. Companies shall continue to adopt the spreadsheet provided by SAMA with the 2013 FCR to support the calculations, unless the Appointed Actuary has sufficient claims data to carry out full analysis of the incidence of risk. In such cases, the premium earnings pattern may be derived based on this analysis, subject to full documentation of the analysis performed.
- e) The Company should note that for policies covering Engineering Construction projects with policy terms in excess of one year, premiums should be assumed due on the dates agreed with the Policyholder for the purpose of establishing Doubtful Debt Reserves according to Article 69(2)(d) of the Implementing Regulation.
- f) For Extended Warranty policies with terms in excess of one year, the Appointed Actuary shall assume that the risk will increase linearly over the policy term in determining the UPR. The spreadsheet, referred to under Item (d) above, should be used for this purpose, unless the Appointed Actuary has sufficient claims data to carry out full analysis of the incidence of risk. In such cases, the premium earnings pattern may be derived based on this analysis, subject to full documentation of the analysis performed.
- g) For Visitor-visa Medical Expense insurance policies with policy term in excess of one year, the Appointed Actuary shall assume that the risk is uniform over the policy term.
- h) For the purpose of reporting in the FCR Reporting Template, the UPR in items (d) and (f) must be split into two components as below:
  - i. UPR determined based on the assumption that the risk is uniform over the policy term.
  - ii. Additional UPR determined reflecting the difference between the UPR determined assuming a linearly increasing risk (as per items (d) and (f) above) and sub-para (i) above.

#### 4. Premium Deficiency Reserve (PDR)

- a) If the Company has insufficient unearned premium reserve against the corresponding projected claims and expenses under a line of business, then it must hold a Premium Deficiency Reserve for that line of business.
- b) For the purpose of PDR calculation, allocation of expenses to individual lines of business must be supported by a comprehensive expense analysis. This expense analysis must form a part of the Actuarial Reserve Report as an appendix. For the purpose of this expense analysis, where the Appointed Actuary relies on the outputs produced by other functions (e.g., Finance) of the Company, the Appointed Actuary must satisfy himself/herself with the completeness, accuracy and appropriateness of that analysis, including the input data used for that analysis.

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- c) Where certain expenses are treated as 'non-recurring', it must be documented in the Actuarial Reserve Report along with the justification for this treatment.
5. Claim Reserves – all lines (excluding long-term Protection & Savings)
- a) Full claims triangles used to determine the claims reserves must be shown in the Appointed Actuary's report.
- b) 'Actual v Expected' analysis showing the deviation of the projected claims development based on data as at 31 December 2017 from the actual claims developments during the year 2018 for each prior accident period. The report should clearly state the treatment of the above deviations for the purpose of determining the claims reserves as at 31 December 2018. This analysis is required for all lines of business, unless the Appointed Actuary considers a line of business to be immaterial.
- c) The report should clearly identify all material assumptions used and judgments made, along with their justification, so that another actuary with appropriate skills can reproduce the results independently.
- d) Claims reserves analysis must consider more than one reserving methodology. For Motor and Medical Expenses lines of business written on a direct basis, both 'paid claims-based' and 'incurred claims-based' methods must be used. For other lines of business, it is preferred that the Appointed Actuary considers both 'paid claims-based' and 'incurred claims-based' methods. The Appointed Actuary should use his professional judgment when selecting results based on a particular methodology or a combination of methodologies. The justification for this selection must be documented.
- e) All reserve projections must be carried out on a Gross-of-recoverables basis, and where possible, all recoverables (i.e., reinsurance, salvage, and subrogation) must be projected separately. The method of estimating the reserves for recoverables must be fully described.
- f) Claims reserves must not be discounted, unless required by the nature of those claims, e.g., annuity payments under a liability claim. Where discounted, the discount rate assumed must be clearly stated in the report.
- g) Methodology for estimating the 'Unallocated' Loss Adjustment Expense reserves must be fully described. Where incurred-but-not-reported claims reserves are inclusive of the 'Allocated' Loss Adjustment Expenses, it must be documented accordingly.
6. Claim Reserves – Additional Requirements for Motor
- a) In the past, SAMA had expressed concerns over the reliability of outstanding Salvage & Subrogation claims data. Where the Appointed Actuary intends to use the outstanding Salvage & Subrogation claims data for projecting future recoveries, this must be supported by a detailed analysis of historical recoveries.



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- b) Generally, SAMA expects that, at a minimum, the reserving analysis for motor class will be split by claim-type (i.e., own damage, third party property damage, and bodily injury/death) and by policyholder-type (i.e., corporate and retail), unless the Appointed Actuary can demonstrate that a higher level of data aggregation does not distort the reserve estimates.

### 7. Claim Reserves Uncertainty

- a) The Appointed Actuary must estimate the uncertainty around his/her estimate of the claim reserves. The analysis of reserve uncertainty should be carried out separately for each line of business, and, preferably, also at the portfolio level.
- b) The Appointed Actuary should use standard actuarial methodologies to estimate the above uncertainty. This may include Bootstrapping techniques, Mack Method, or simply a range of results under various reserving methodologies.

### 8. Protection & Savings (P&S) Insurance

Detailed instructions for Protection & Savings Insurance are shown below.

#### a) Method of calculation of the Mathematical Reserves of P&S business

- i. The determination of the amount of Mathematical Reserves in respect of the liabilities in the P&S Class, (other than liabilities which have fallen due for payment before the valuation date) shall be made on actuarial principles which have due regard to the reasonable expectations of Policyholders and shall make proper provision for all liabilities on a best estimate basis .
- ii. The determination shall take account of all prospective liabilities as determined by the policy conditions for each existing contract, taking credit for premiums payable after the valuation date.
- iii. Allowance should be made for future bonuses, guaranteed benefits including guaranteed surrender values and options, if any.
- iv. The method of calculation of the amount of the Mathematical Reserves and the assumptions used shall be such as to recognise the distribution of profits in an appropriate way over the duration of each policy.
- v. The method of calculation of the amount of the Mathematical Reserves and the assumptions used shall not be subject to discontinuities from year to year, unless it can be fully justified. Where any changes are made to the method of calculation or the assumptions used, the impact of each change must be estimated individually in comparison with the method and assumptions used for the previous valuation.

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vi. All assumptions must be appropriately justified and documented in the Actuarial Reserve Report.

b) Acquisition expenses

i. In order to reduce the reserve strain during the first policy year, the Company may use Zillmer Reserve Method.

ii. The increase permitted by subparagraph (a) above shall be subject to the limitation that the amount of the future premium valued shall not in any event be greater than the amount of the premium actually payable by the policyholder.

c) Unit-linked contracts

i. Where the benefits payable under a contract are wholly or in part unit-linked benefits, the amount of the Mathematical Reserves determined in respect of those linked benefits shall not be less than the value of the underlying assets.

ii. The Appointed Actuary should consider whether any reserves additional to the unit liability should be held for unit-linked policies. In particular, possible future shortfalls in expense margins should be considered by projecting future cash-flows on each unit-linked policy, using appropriate assumptions.

d) Mathematical Reserves on Group Life business

It should be noted:

i. The Mathematical Reserve for Employer Sponsored Group Life contracts written on a unit-rated basis where the premium for each individual is not known should be valued by calculating an Unearned Premium Reserve (UPR) for the proportion of the Gross total premium under the contract relating to the remaining period from the valuation date until the expiry of the current period of insurance.

ii. The Appointed Actuary should consider carefully whether the premiums for the class of group protection business taken as a whole (with due account being taken of reinsurance arrangements) is adequate, in light of actual experience to date and expected future experience, and if necessary determine an Unexpired Risk Reserve in addition to the UPR. It is acceptable for an Unexpired Risk Reserve to be held at the Company-level so that the Company's overall experience is taken into account.

iii. Deferred acquisition costs arising from group business may not be used as an asset to offset the Mathematical Reserve.

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e) Mathematical Reserves on Group Credit Life business

- i. The Mathematical Reserve for Group Credit Life contracts covering customers of banks and finance companies, and written on a unit-rated basis should be set separately for each policy based on its own historical and projected future experience.
- ii. The Company must provide the Appointed Actuary with all quotation data received in respect of any Credit Life scheme that has been in-force with the Company for less than three full policy years.
- iii. Loss rates per mille of Sum Insured should be considered for at least the past three years.
- iv. If there has been a material increase in in-force business over the year, then in the absence of individual age data, the Appointed Actuary should make appropriate assumption on the average age of new joiners.
- v. Where disability cover is provided with a deferred period then it should be assumed that the insurance company will not be advised of any claim until the end of the deferred period.

f) Outstanding claims (including IBNR)

- i. The Appointed Actuary should identify the reserves that are held in respect of outstanding claims and confirm that the accounts accurately reflect them.
- ii. Outstanding Claims (including IBNR) may assume claims reporting delay patterns are homogenous for all Protection & Savings business except Group Credit Life.
- iii. Outstanding claims (including IBNR) for Group Credit Life should be determined on a scheme-by-scheme basis taking into account the slower claims reporting characteristic of this product, and the historic experience available.

g) Contents of the Report to SAMA, certificates and signatures

The Appointed Actuary's report must include, at a minimum:

- i. A brief description of each of the main types of contract, sufficient so that the methods and assumptions used in the valuation can be understood. Particular reference should be made to any options and guarantees under the contracts. For unit-linked contracts, full details of the charges made to Policyholders should be set out. Full details of each Group Credit Life scheme insured by the Company should be included within the report.
- ii. A statement describing the valuation method for contracts that are not unit-linked contracts.

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- iii. Where a retrospective valuation method has been used, a statement giving details of the tests carried out to ensure that the resulting amount of the Mathematical Reserves are no lower than that required if a prospective calculation is used.
- iv. A statement of all the rates of interest assumed in the valuation, and the types of contracts that each rate applied to.
- v. A statement of all the rates of mortality and disability assumed in the valuation, the types of contract that each rate applied to and full details of the investigations undertaken to validate the assumptions made. Where standard tables are used, reference must be made to those standard tables.
- vi. A detailed description of the investigations undertaken to analyse the expenses of the Company between acquisition expenses and renewal expenses, and between different categories of product, together with all the relevant information used in the analysis.
- vii. A description of how the valuation allows for voluntary discontinuation, together with a justification for the assumptions used.
- viii. A detailed description of how the valuation allows for the Company's expected future expenses, showing how the expense allowances in the valuation relate to the actual renewal expenses incurred as determined in sub-paragraph (f) above.
- ix. A description of the way in which the valuation makes proper provision, either explicitly or implicitly, for future bonuses for participating contracts in a manner consistent with the other assumptions on future experience and with the current method of distribution of bonuses.
- x. A description of the way in which the valuation makes provision for options and guarantees.
- xi. A description of all changes in the method of calculation of the Mathematical Reserves or in the assumptions used, together with the full justification and the impact of each change individually.
- xii. Where additional amounts have been set aside on an aggregated basis for general risks that are not individually assessed, a statement giving details of the additional amounts, the justification and methodology for calculation.

#### 9. Reinsurance Accruals

- a) Where any reinsurance treaty includes Swing Rates, or any adjustment reinsurance premium or commissions based on the claims experience under the treaty or a loss participation clause, then the Appointed Actuary is required to determine an explicit Reinsurance Accrual Reserve. The results of the calculation must be provided to the Finance function in order to book those amounts under appropriate categories

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within the Company's Financial Statement (e.g. amount payable to or receivable from reinsurers, etc.).

- b) For any treaty where the reinsurance premium or reinsurance commissions are adjusted based on claims experience, the Reinsurance Accrual Reserve should be based on the projected ultimate loss ratio.

### 10. Reinsurance Adequacy Analysis

- a) The Appointed Actuary must review all effective reinsurance treaties. The Appointed Actuary must comment on the value for money provided by each treaty and its appropriateness given the risks underwritten by the Company. In addition, the Appointed Actuary is required to comment on the amount of risk transfer under the treaty, and as to why it should not be considered as Finite Reinsurance.

### 11. Other Contents of FCR

- a) The Appointed Actuary must ensure that, in addition to the above, the FCR produced covers all other requirements as per the regulations and meets the applicable professional standards of the relevant actuarial organisation.

### Board and Management Responsibilities

- a) The Company's Board of Directors and management are ultimately responsible for ensuring that the reserves booked in the financial statements are adequate. SAMA expects that the Company will book reserves equal to or higher than those recommended by the Appointed Actuary.
- b) In those rare circumstances, where the Company intends to book reserves lower than those recommended by the Appointed Actuary, it has to be approved by the Board of Directors, and the CEO of the Company must inform SAMA immediately, along with an appropriate justification, including the external auditor's views on the proposed reserves. In such cases, it is likely that SAMA will require additional evidence that may include an independent reserving exercise as at 31 December 2018 carried out at the Company's expense. Until the Company has obtained clearance from SAMA, the Company must not publish its financial statements.
- c) The Appointed Actuary must, in addition, prepare a short summary document highlighting the key findings in the FCR. This should be no more than five pages in length, and should be submitted to the Board of Directors of the Company as a Board paper, with the Appointed Actuary's full report being an appendix to the Board paper.
- d) SAMA requires that the Appointed Actuary present his findings and recommendation at a Board Meeting, to be held before 30 April 2019.

*Handwritten signature/initials*

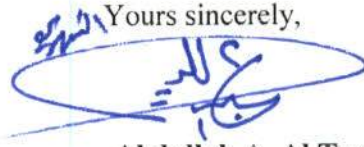
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## Compliance

- a) A copy of this Circular should be shared with the Company's Board of Directors, Audit Committee, Chief Financial Officer, Appointed Actuary, External and Internal Auditors, Risk Management officers and Compliance Officer.
- b) If, in SAMA's view, the Actuarial Reserve Report does not meet generally accepted professional standards, then SAMA may require that an independent reserving exercise as at 31 December 2018 be carried out at the Company's expense for submission to SAMA at a date decided by SAMA.

Yours sincerely,  


**Abdullah A. Al Towaijri**  
**Director General of Insurance Control**



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## Appendix 1

FCR Reporting Template (attached)

All data and reports, including the above template, must be submitted via RMS.