Saudi Arabian Monetary Agency
Head Office

General Department of Insurance Control

التاريخ:1437/10/7هـ **Circular** الرقم: ت.ع.م/201607/91

الموافق:2016/7/12م

Mr.
The Company's Name

Subject: Medical Expenses - Underwriting Practices 2016

Dear Mr.

SAMA issued the original Underwriting Circular on 25/5/1435.

At the request of the Insurance Executive Committee (IEC) SAMA subsequently issued standard claims experience forms for medical and motor insurance on 1 December 2014 to come into effect on 1 January 2015. These forms included clarifications, corrections and updates to the original Underwriting Circular.

The Underwriting Practices 2015 update was issued on 24/6/2015.

SAMA issued Property Instructions on 20/10/2015.

SAMA has noted that underwriting and other practices in the medical and motor classes are now diverging as the market develops. In future SAMA will issue Circulars and Instructions separately by Class of Insurance as defined in Article 33 of the Implementing Regulations.

This Circular refers to health insurance only.

An updated version of the claims experience forms for medical expenses was issued on 9 June 2016, with an implementation date of 1 September 2016.

SAMA has noted that underwriting practices in the market remain out of line with international practice in some respects that are damaging the functioning of the market. These practices include:

- Limited rating factors being used to price individual medical risks, with such risks being treated as commodity products.

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SAMA introduced requirements for insurance companies to obtain and submit actuarial pricing reports for medical expenses businesses late in 2012 and to be implemented starting from 1 January 2013 for medical expenses insurance business.

These actuarial pricing reports were required to be updated by June 2014, and then by August 2015.

The submitted actuarial medical pricing reports must be updated to fully take into account the recent claims experience of insurance companies.

The technical instructions for actuarial pricing reports have now been included within SAMA's Actuarial Work Regulations, and these Regulations should be read in conjunction with this Circular.

This Circular details SAMA's instructions with respect to the above mentioned issues.

No insurance company shall ever provide a quotation without having adequate underwriting information, including claims experience, on which to scientifically determine the premium rates appropriate for the policy terms & conditions offered. It should be noted that this applies to all insurance policies of all classes.

1. Claims Experience Requirements

1.1 Medical Underwriting

SAMA has developed claims experience forms and quotation instructions at the request of the industry.

These have been updated following feedback from the industry, and the 2016 version was issued on 9 June 2016.

1.2 Nature of the Claims Experience to be Required for Medical Insurance

At the request of the industry SAMA developed standard forms to be used by all insurers. These were issued in December 2014, and came into effect from 1 January 2015.

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SAMA notes that sometimes the completion of these forms may not be as required, and would clarify that:

a) The company providing the claims experience must always provide data that is as up-to-date as possible. The claims experience provided should at a minimum include all claims processed more than 3 months before the claims experience reporting date.

b) The monthly data provided for the most recent underwriting year is for claims paid in each month, and claims outstanding at the end of each month. All data must be shown.

c) The Policy Year is the year from the last renewal data of the policy. If, for instance, a policy renews on 1 July, then the 2016 Policy Year is the period from 1 July 2016 to 30 June 2017.

d) Full benefit information must be provided as stated in the experience form instructions.

1.3 Responsibility for Providing Claims Experience

The key relationship is between the policyholder and the insurance company. SAMA requires that the insurance company provides the policyholder, upon his written request or his representative's written request (i.e. broker), within 15 working days of making the request with sufficient and accurate information of his claims experience, including up-to-date incurred claims. It is the responsibility of the policyholder to provide the insurance company with sufficient and accurate information for it to price and underwrite the risk it is taking on.

Where the insurance company outsources its claims administration to a TPA, then the TPA is required to provide the data requested to the insurance company within 10 working days of its request.

The claims experience report issued by either the insurance company or its TPA must be stamped & signed by the authorised person and the report must be printed on the issuer heading letters (insurance company or its TPA).

After receiving the claims experience, the policyholder should review the report and confirm in writing that he reviewed it and that all information included within the report is accurate to the best of his knowledge.

If the insurance company fails to obtain the policyholder's confirmation that the claims experience is accurate then it should note that it may not be able to

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take any action if it subsequently discovers it has charged an inadequate premium rate based on the data provided.

With respect to personal lines business, the insurance company is not required to obtain the policyholder's claims experience in a report format from the policyholder or the existing insurance company; instead the insurance company should ensure that its proposal form asks about all material facts including the policyholder's claims experience.

If it is found that inaccurate claims experience was provided then the insurance company shall have the right to review the premium rate charged, and take appropriate actions. These include adjusting the premium, or requiring that any commission paid to the broker be refunded if due to broker misrepresentation or non-disclosure.

In extreme circumstances where evidence has been obtained that claims data provided to the insurance company in order to quote was misstated with fraudulent intent, then the insurance company may cancel the policy and take the proper actions against the parties who are responsible.

1.4 Role of Brokers

A broker may collect the claims experience and provide it to the insurance company. It should be noted that brokers must act on behalf of the policyholder and conduct their business according to professional and ethical standards and as per the applicable laws and regulations, including the provisions of the Implementing Regulations of the Law on Supervision of Co-operative Insurance Companies, Insurance Intermediaries Regulation, Market Code of Conduct Regulation and Regulation of Reinsurance Activities Regulation.

Using a broker to collect this data does not in any way reduce the responsibility of the policyholder to ensure that accurate information is provided to the insurance company.

1.5 Pricing of Group Medical Insurance

Insurance companies must comply with the following instructions when applying the claims experience:

1. Apply an experience rating approach for group risks, and they must also supply a fully justified credibility formula recommended, and signed off, by the Company's Actuary.

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2. A form or Excel spreadsheet shall be produced which ensures that the pricing mechanism adopted complies with the credibility formula that is recommended by the Company's Actuary. A copy of the form or Excel spreadsheet must be provided to SAMA.
3. The Actuary shall determine the annual increase in the burning costs allowing for claims trends, inflation to be built in the credibility formula calculation mechanism.
4. The Actuary's Pricing Report shall specify the size of schemes for which this blended pricing approach must be adopted. It must define the size of smaller schemes where book rates shall be used.
5. The Insurance Company may request that its Actuary assists with individual quotations for a particular scheme if it considers that there are reasons why the scheme falls outside the standard pricing process. All such individual quotations must be fully documented, auditable, and made available to SAMA on request. The Actuary should ensure that these individual quotations fall outside the standard pricing process before providing his/her recommendation.
6. The Actuary is required to specify in his pricing report the range of discounts that companies can adopt in their pricing based on discounts received on the existing portfolio. Companies should use the discount that they expect to receive from the Medical Service Providers in their quotation. The underwriters justification for the discount used should be fully documented, and provided to SAMA and the internal control functions on request.

It should be noted that SAMA imposes no restrictions on the form of the credibility formula to be adopted by each company, provided that it has been recommended by the Actuary. For instance, the Actuary may choose to vary the credibility formula by class of insurance, own or other insurer's experience, good or poor experience. SAMA may challenge the credibility formula adopted if it considers that it has not been fully justified technically.

1.6 Pricing of Individual Medical Risks for Employed Expatriates and Dependents

Individual or Retail Medical Policies for employed expatriates and their dependents are being phased out for renewals with effect from 1 July 2016.

The employer will be required to replace them with corporate policies.

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It may not be possible for an employer to obtain reliable claims experience if his employees have been covered by individual policies. In such cases insurance companies must price the policy using their corporate book rates.

Any corporate policy written without claims experience should be endorsed to make it clear that not disclosing claims experience may invalidate the contract, and entitle the Insurance company to charge more if it is subsequently finds that claims experience was available from a prior corporate policy.

Before issuing any quotation, the insurance company must verify whether or not the client has been insured under a corporate policy in the past, by utilizing the authorized access to data that will be provided by CCHI.

1.7 Other individual Policies

Other individual policies are unaffected by the changes to medical expenses products for employed expatriates and their dependents.

It is expected that special consideration will need to be given to products for Saudi Arabian individuals and their families, as this market develops.

2. Premium Rate Guarantees

It is not permitted for any insurance company to enter into any arrangement with any insured for a period in excess of one year for medical expenses insurance with rates guaranteed for more than one year. Policyholders can choose to renew their annual policy with the same insurance company, but this must be on terms negotiated and agreed at renewal.

It should be noted that the use of prescribed formula for renewals, even if it takes into account the loss experience for the first year is not acceptable. Full allowance for current inflation and future trends expectations must be made for all quotations at the time of the renewal.

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3. Insurance Companies other than leading a medical policy

3.1 Acting as Co-insurer not leading the policy

Any insurer participating in a panel of insurers, or following a lead co-insurer must ensure that they obtain full exposure and claims data to underwrite the policy fully. It is not permitted to place full reliance on a lead insurer.

4. Medical Pricing Report

4.1 General Requirements

SAMA is requiring all insurance companies to provide a full actuarial pricing update for medical products on at least an annual basis, and will consider requiring more frequent updates if necessary.

SAMA requires all companies approved to sell medical products to provide full updated reports by 30 September 2016.

For any medical pricing reports, the Appointed Actuary must use up to date complete data to determine the premium rates. The data used in the report must be up to date when the report is submitted to SAMA. Specifically, if a report is submitted between:

1) 1 March to 31 May: it must use complete data up to at least 31 December of the previous year.
2) 1 June to 31 August: it must use complete data up to at least 31 March of the same year
3) 1 September to 30 November: it must use complete data up to at least 30 June of the same year.
4) 1 December to 31 December: it must use complete data up to at least 30 September of the same year.
5) 1 January to 28/29 February: it must use complete data up to at least 30 September of the previous year.

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Medical products approval may be withdrawn if the updated Actuarial Pricing Reports are not submitted or are not compliant with SAMA's instructions.

The Insurance Company's Appointed Actuary shall prepare the medical pricing reports that are to be submitted to SAMA unless the Insurance Company has obtained SAMA's no objection to ask another actuary to prepare the pricing reports at least three months before the date of the actuarial report submission. It should be noted that SAMA will only allow another actuary to be used only if it is justified, and SAMA will require a report to be submitted from the Appointed Actuary in addition to those prepared by the other actuary. It should be noted that there are no restrictions on the preparation of technical or actuarial reports that are not submitted to SAMA.

If a company submits two actuarial reports to SAMA then it must implement the one prepared by its Appointed Actuary. It may only implement the premium rates in the other actuary's report if and when it receives SAMA's no-objection.

The Insurance Company should note that it is acceptable to provide partial submissions to SAMA from the Actuary in respect of

a. Revisions to credibility formula
b. Changes to recommended loadings
c. Pricing of a single product within the medical class
d. Introduction of a new rating factor
e. A new network option
f. Other amendments to the pricing basis that the actuary recommends, subject to these not leading to a reduction in premium rates for retail/individual medical

The Insurance Company may seek SAMA's approval to provide partial pricing submissions from the Actuary in other circumstances.

It is always acceptable to charge higher premium rates than those determined by the Actuary, subject to such rates being fully documented, justified, and in line with Article (46) of Implementing Regulations.

It should be noted that there is no requirement for the Company to submit any actuarial pricing report to SAMA unless required by this Circular, or the Company wishes to amend its premium rates or rating structure. The Company must never charge rates lower than those that have been submitted to SAMA. It is always permitted to charge higher rates than those in the Actuary's report, provided the rates charged are fair, reasonable and technically justified.

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If the Company makes any material alteration in its reinsurance arrangements for medical insurance, then it must consult with its Actuary to determine whether the recommended loadings in the premium rates remain adequate, and must amend its rates as appropriate.

It should be noted that the Actuary must recommend premium rates with no cross subsidies between the rating factors, in line with Article 46 of the Implementing Regulations. However if, for competitive purposes, the Company wishes to charge rates which have some element of cross-subsidisation, then it may ask the Actuary to prepare an additional report setting out the risks of applying the cross-subsidies, based on the expected portfolios of business written, which may not be too dissimilar to the in-force portfolio. SAMA will review the cross-subsidy report separately.

It should be noted that cross-subsidies are only permitted within the same class of insurance. In addition, no cross-subsidies are permitted between retail and corporate business.

The Actuary is responsible to ensure that a comprehensive and concise report is provided to SAMA, so as to minimize the extent of required follow-up queries from SAMA.

In addition, the Actuary must prepare a short summary document highlighting his key findings for each Actuarial Pricing Report. This shall be no more than five (5) pages in length, and must be submitted to the Board of Directors of the Company as a Board paper within five working days of the Actuary's submission, with the Actuary's full report being an appendix to the Board paper.

The Actuarial Pricing Reports submitted to SAMA cannot be preliminary or initial and are required to be the final reports. The reports shall clearly summarize and compare the Company's current premium rates (loads and discounts) and the new premium rates (loads and discounts) calculated by the Actuary.

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4.2 Mandatory Loading Requirements

The Actuary is required to include the following loadings within the gross premium rates:

1) An **Expense Loading** covering *all* of the Company's expenses, both for policyholders and shareholders, allocated appropriately to each class of insurance. A Company may use projected expenses if it meets the criteria set out in Section 4.3

2) A **Commission Loading** covering any direct payments made in respect of the acquisition of a policy, whether to intermediaries or to internal staff.

3) A **Profit Loading** that must be explicitly approved by the Board of Directors of the Company.

4) A **Contingency Loading** set at 2.5% of premium for medical expenses.

5) A **Financial Condition Loading** to allow for the lower risk capacity of any insurance company that is not able to cover its solvency margin fully. This is defined fully in Appendix Three.

Detailed requirements for the calculation of these loadings are shown in Appendix Two.

SAMA has noted that there is some confusion in the industry about the correct definitions of Loss Ratio, Expense Ratio and Combined Ratios, so these are set out in Appendix Four.

a. Use of Projected Expense Loadings

If a Company has cover for its statutory solvency margin in excess of 125% as at 31 December 2015, and it does not have product approval for any Savings products, then it may adopt projected expense loadings for medical insurance.

The pricing report should provide justification for the proposed expense loadings by including a prudent business projection showing the legal solvency margin of the Company as at the end of 2016, 2017 and 2018.

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In addition, in order to use projected expense loadings a Company must demonstrate that it has been achieving economies of scale over 2014 and 2015. In particular:

1) The Company must have had more than 100% growth in Medical Insurance Gross Written Premium from 2014 to 2015.

2) The Company must have had no increase in loss ratio in 2015 from that experienced in 2014.

3) The Loss Ratio in 2014 must be no higher than 80%.

If this business projection does not sufficiently demonstrate that the Company will have 110% cover for its statutory solvency margin as at the end of 2016, 2017 and 2018, then SAMA will require the Company to increase its expense loadings.

By 2018 the projection must show that the Company is fully covering all of its allocated expenses to the medical class by its premium loadings from medical business written.

In addition:

- Medical premium income and expenses must be projected based on stated and justified assumptions.

- The allocation of expenses to the medical line of business must be based on stated and justified assumptions.

If at any quarter end, the cover for the legal solvency margin is below 110% then the Company must immediately increase its expense loadings for medical expenses business to those determined according to the mandatory loadings section, with all expenses being covered by premiums written.

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5. The Underwriting Manual

5.1 Submission to SAMA

The Company must submit a corresponding Underwriting Manual, rating structure and premium rates.

The rating structure and premium rates must be in Excel spreadsheet format.

5.2 Contents of the Underwriting Manual

Underwriting Manuals must contain sufficient information so that an external party can follow any quotation produced by an Insurance Company for a risk in that Class of Insurance.

Underwriting Manuals must:

- be consistent with the pricing reports
- be comprehensive and cover all risks
- be clear and user-friendly
- fully describe the quotation process
- include the Underwriting Authority Statement, fully described
- be consistent with reinsurance arrangements
- where appropriate, they must be consistent with TPA agreements
- where appropriate, they must be consistent with CCHI requirements

All premium rates to be charged must be approved by the Actuary. Any adjustments to be made to the base rates determined by the Actuary must be documented in the Underwriting Manual.

The Underwriting Manual shall be signed off by the Chief Underwriter or Chief Technical Officer for the class of insurance, as designated by the Company.

The Actuary should review the Underwriting Manual (excluding the Underwriting Authority Statement) for technical accuracy and consistency with the pricing report, and highlight any inaccuracies.

The Risk Manager shall also sign off the Underwriting Manual (including the Underwriting Authority Statement) from the process perspective.

It should be noted that the Company is fully responsible for the accuracy, clarity and comprehensiveness of the Underwriting Manual.

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SAMA requires that companies commit to translating their Underwriting Manual and Underwriting Authority Statement into Arabic by 31 December 2016.

5.3 The Underwriting Authority Statement

The Underwriting Authority Statement must set out fully the levels to which each Underwriter may quote.

This could be measured by Gross Written Premium, Sum Insured, or Number of Lives for Medical, or a combination of these.

5.4 Discretionary Reductions in Loadings for individual quotations

This section sets out the requirements to fully document in the Underwriting Authority Statement any discretion to reduce loadings for individual quotations. This is distinct from section 4.4 which sets out when and how the Insurance Company can apply to SAMA to be allowed to reduce loadings for all quotations.

Any discretion to reduce Loadings for a particular quote would normally only lie with the Chief Underwriter or Chief Technical Officer. The scope to which this discretion extends must be fully documented.
Any additional discretion to reduce Loadings, for individual quotations, that lies with the Chief Executive Officer must be fully documented.

The Minimum Loadings that must be applied for all quotations must be clearly stated. The Minimum Loadings, net of commission, must be no less than 75% of the total loadings, net of commission, recommended by the Actuary.

No discretion to reduce loadings to a particular quotation may be applied until the Underwriting Authority Statement has been approved by the Board of Directors, and it has been submitted to SAMA.

5.5 Training on the Updated Underwriting Manual and Underwriting Tools

Everyone who has any level of authority to underwrite must be trained in the use of the Underwriting Manual and the Underwriting Tools.

Records must be maintained of formal training undergone.

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The Company must provide a quarterly update to SAMA of the underwriting training undertaken.

SAMA considers that well trained and competent underwriters are essential to any insurance company writing medical expenses insurance.

If an Insurance Company has been authorised to write medical expenses insurance for more than three years, but does not have suitably skilled underwriters in place then SAMA will consider taking action, including the suspension of product approvals, until the situation is resolved.

6. Compliance and Record Keeping

A copy of this Circular must be passed to the Company's Board of Directors, Audit Committee, Internal Auditors, Risk Management officers, Compliance Officer, Responsible Actuary and External Auditors.

The Actuary must prepare a short summary document highlighting the key recommendations of the pricing report. This shall be submitted to the Board of Directors and the internal control functions (internal audit, risk management, and compliance functions) with the pricing report submission.
The purpose of this document is to ensure that:

- The internal control functions understand the Actuary's recommendations.
- There are internal controls in place to ensure the Company is following the Actuary's recommendations.
- The internal control functions set up a meeting with the Actuary to understand his/her recommendations and how to ensure that the Company is following his/her recommendations.

The Compliance function must report to SAMA any material lack of compliance with SAMA's instructions. This shall be based on the reports of the Internal Audit function and the Risk Management function, and shall include an action plan for addressing the key issues identified.

The Internal Audit function must carry out a continuous audit, at least on a quarterly basis, of the underwriting function to assess compliance with the Company's internal procedures and guidelines as defined in the Underwriting Manual submitted to SAMA.

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The Risk Management function must carry out a quarterly assessment of the underwriting risks, and recommend improvements to processes, and address any other weaknesses that should be improved such as any need for additional training of underwriting staff.

The internal control functions (internal audit, risk management, and compliance functions) must provide the Audit Committee on a quarterly basis with a report on their findings and suggested corrective actions. Moreover, on a quarterly basis the Compliance function must provide SAMA with a copy of the minutes of the Audit Committee meeting in which the report was discussed. The minutes must summarize the findings and any corrective action that should be taken by the Company.

The Underwriting Authority Statements for Medical products must be formally approved by the Board of Directors within 60 days of the required submission dates of the Actuarial Pricing Reports to SAMA.

The Compliance Officer must ensure that all those mentioned in the first paragraph of this section receive copies of the Actuary's Pricing Reports, the Board Summary documents and the Underwriting Manuals.

In addition, all members of staff who have a designated underwriting authority level must be passed copies of the Underwriting Manual by the Compliance Officer.
The Company must ensure that it has in place a central database accessible by Senior Management and all Internal Control functions containing full records of all quotations issued by the Company, and all backing data.

Companies are required to have a centralised quotations database in place by 1 July 2016.

7. Implementation of New Rates

7.1 File and Use

Any proposed revisions to premium rates, rating structure and credibility formula may be introduced on a File & Use basis, which means the Insurance Company files the new actuarial report with SAMA and implements the new proposed premium rate, subject to such rates being in line with Article (46) of the Implementing Regulations.

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The proposed revisions must be implemented within one month of the date the report is submitted to SAMA.

One specific exception is that, for Individual/Retail Medical, premium rates may not be introduced on a File & Use basis, if the premium rates for more than 50% of the business that the Company expects to write are to be reduced. Any proposed reductions in retail premium rates may only be introduced if SAMA provides its no-objection. However, if SAMA has not provided a response to the Company within three months of its submission of reduced rates, then it may assume that SAMA has no objection to its introduction of the rates.

7.2 SAMA's Review Process

SAMA's review of the Actuarial Pricing Reports will be split into two parts:

a) A review of the loadings for expenses, contingency, profit and any financial condition loading to be applied to ensure that these are compliant with requirements.

b) A technical review of the methodology adopted.

If non-compliant loadings are being applied the Company will be required to correct these within five working days of SAMA's letter to the Company.

SAMA will also review

c) The Underwriting Manual to check that it is complete and consistent with the Actuarial Pricing Report.

d) The Excel pricing tool provided to check that it is compliant with the Actuarial Pricing Report, and that it is documented in the Underwriting Manual.

SAMA's reviews must not be regarded as reducing in any way the responsibility of the Company and the Actuary to comply with regulatory requirements.

If SAMA discovers that any company or actuary has abused the File and Use process, then appropriate regulatory actions will be taken.

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7.3 Regular Rate increases

All companies are required to increase their medical rates on a quarterly basis to allow for inflation and anticipated future trends in experience, as recommended in the Actuary's report.

Any Company that is required to apply a Financial Condition Loading must update that loading quarterly based on the Quarterly Reporting Forms.. It must submit a brief note to SAMA setting out and justifying the revised Financial Condition Loading.

The exception to this is that the Financial Condition Loading must not be reduced at any quarter unless the Company has used reserves that have been determined by its Appointed Actuary.

7. Regulatory Action For Non Compliance

It should be noted that if an insurance company, broker, insurance agent or insurance claims settlement specialist (third party administrator) is not in compliance with this Circular, SAMA will take the regulatory/legal actions as stipulated in the Law on Supervision of Co-operative Insurance Companies and its Implementing Regulations.

Thus, SAMA instructs the Insurance Company to do the following:

1. Submit the 2016 pricing report by 30 September 2016.
2. Implement the new premium rating basis by 31 October 2016, provided it fits the File & Use requirements.
3. Provide SAMA with a copy of the five-page Board summary report by 30 September 2016.
4. Provide SAMA with the updated Underwriting Manuals, including the Underwriting Authority Statement, which reflects the instructions stated in Sections 1, 2, 3, 4 and 5 of this Circular, for medical expenses insurance. These must be provided within 60 days after the deadline for the submission of the Actuarial Pricing Reports.
5. Provide SAMA with an unprotected soft copy of the Excel spreadsheets that set out the blended credibility approach that the Insurance Company is going to adopt to price group medical expenses which are in

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compliance with instructions stated in this Circular. These must be provided with the Actuarial Pricing Reports.

6. Provide SAMA with copies of the minutes of the Audit Committee meetings in which quarterly internal auditor reports are discussed.
7. Provide SAMA with a quarterly summary of training undergone by Underwriting staff.
8. Immediately provide the Insurance Company's employees who are in charge of underwriting with a copy of this Circular.
9. The requirements set out in this Circular will be effective immediately.
10. Provide confirmation from the Insurance Company's CEO/GM within seven days of the date of this Circular of adherence to the instructions stated in this Circular.
11. Copies of this Circular must be provided to the full Board of Directors of the Company. Minutes of the Board meeting on the adherence to the requirements set out in this Circular must be provided to SAMA within 90 days of the date of this Circular.
12. SAMA requires that the Actuary attend Board Meetings to present his Board Pricing papers, and take questions on his full pricing report. The Company must provide minutes of the relevant Board meetings to SAMA, and copies of the Actuary's Board papers within ten business days of the meeting.

Yours sincerely,

Tareq A. Alsadhan
Deputy Governor for Supervision

To:
- Insurance Companies
- Insurance Brokers
- Insurance Agents
- Insurance Claims Settlement Specialist (Third Party Administrators)
- Actuaries

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Appendix One – Additional Requirements

Blending Book Rates with Experience for Larger Schemes

An Excel spreadsheet must be produced which ensures that the pricing mechanism adopted complies with the credibility formula recommended by the Actuary.

Compliance with the Prior Actuarial Pricing Reports

In order to investigate the compliance with the experience rating basis recommended, the Actuary shall take samples of the top five groups by premium income from the Insurance Company's portfolio and derive the experienced-rated premium rate. This can then be compared with the actual rate charged for each of the top five groups.

The Actuary is required to provide with his pricing report an Excel workbook to validate compliance with previous submitted pricing reports. The Excel workbook provided by SAMA ("ComplianceWithActuarialRates.xlsx") can be used to validate compliance for medical business. The Insurance Company must provide SAMA with copies of the Excel workbooks.

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Appendix Two - Mandatory Loading Requirements - Details

The Actuary is required to include at least the following loadings within the Office Premium rates:

1) An expense loading (e)
2) A commission loading (c)
3) A profit loading (p)
4) A contingency loading (co)
5) A financial condition loading (f).

That is

Office Premium >= Risk Premium / (1 - e - c - p - co - f)

1. Expense loading

The expense loading must cover all of the Company's expenses, both for policyholders and shareholders. The Actuary should develop an appropriate allocation of expenses for the medical line of business.

For any Company that was licensed by SAMA to write any class of insurance business as at 1 January 2013, the expense loading is subject to a minimum of the expense ratio of the Company for 2015. For the purposes of this sub-paragraph, expense ratio must be calculated using the formula set out in Appendix Four modified as follows:

- The item "commission incurred (Form 21, Line 38, Column E)" should be omitted, as commission is covered by the separate commission loading.

- Some companies may have incorrectly reported TPA fees in Forms 81 and 82 on the grounds that they are loss adjustment expenses, as opposed to in line 40 of form 21. Where companies have taken this approach the formula in Appendix Four will need to be adjusted so that TPA fees are included in the expense ratio.

For the avoidance of doubt, the Actuary is expected to perform two calculations:

- An expense loading for the medical expenses line of business using an allocation of expenses to that line of business determined by the Actuary;

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- The expense ratio of the Company using the formula set out in Appendix Four, adjusted as above.

The expense loading is then whichever of these calculations leads to the higher result.

Any Company that was not licensed to write any class of insurance as at 1 January 2013 may calculate the expense loading using a prudent projection of its expenses and premium income for the third calendar year following the date at which it was first licensed to write any class of business.

Any Composite Insurance Company, defined as any company writing general/health insurance and a material amount of long-term Protection & Savings business, must not use the expense ratio for the Company as a whole. Instead, an expense report shall determine a suitable split of expenses between Protection & Savings and General/Health, and the Expense Ratio determined for General/Health only.

Any expenses that may be subject to unusual fluctuations may be smoothed. In particular, the change in Doubtful Debt Reserve must be considered part of the Company's expenses, but consideration should be given to smoothing this item.

2. Commission loading

The commission loading will normally reflect the actual commission to be paid on a case by case basis.

3. Profit loading

The profit loading must be at least 2% of gross premium. It must be explicitly approved by the Board of Directors of the Company.

4. Contingency loading

The contingency loading must be set at 2.5% of gross premium.

5. Financial Condition Loading

A Financial Condition Loading is required to allow for the lower risk capacity of any insurance company that does not have sufficient Admissible Assets to meet the Required Margin before application of the Minimum Capital Requirement (Reporting Form 31, Line 43, Column A).

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The required calculation to be adopted for this loading is set out in Appendix Three.

If a Company is in the process of increasing its capital, then the Actuary must provide two sets of premium rates for the Company to use, one prior to the capital raising exercise, and the other based on the expected solvency position once the additional capital has been raised, allowing for the different Financial Condition Loadings before and after the capital increase.

The rates based on the post capital raising financial condition may only be used once the Company has received the proceeds of the capital raising exercise.

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Appendix Three - Financial Condition Loading

All companies that do not hold sufficient Admissible Assets to cover their Total Required Margin before application of the Minimum Capital Requirement must include an additional loading in the medical premium rates that they charge.

This is based on the data presented in Form 31 in the most recent Quarterly or Annual Returns, subject to any amendments required by SAMA.

The Financial Condition Ratio is defined as the Net Admissible Assets / Total Required Margin.

Financial Condition Ratio = (Form 31, Line 39, Column A) / (Form 31, Line 43, Column A)

If the Financial Condition Ratio is greater than or equal to 1 then no loading shall be applied to the premium rates.

If the Financial Condition Ratio is less than 1 then a Financial Condition Loading must be applied

The Financial Condition Loading for Medical Expenses is determined as:

16% x (1- Financial Condition Ratio)

The Financial Condition Loading shall be rounded to the nearest whole percentage point.

Note "Column A" refers to the Form Label, not the Excel Column.

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Appendix Four – Standard Income Statement Ratio Definitions

This section sets out the standard definitions of the Loss Ratio, Expense Ratio and Combined Ratio equivalent to those used internationally.

Key points to note are that

1) Combined Ratio = Loss Ratio + Expense Ratio

2) A Combined Ratio in excess of 100% means a General/Health Insurance Company is making Underwriting Losses. These may be mitigated by investment returns.

3) These ratios must not be used for any Company writing material amounts of long term Protection & Savings business.

For all three ratios the Denominator is the Net Earned Premium plus any other income other than that arising from investments:

Net Earned Premium (Form 21, Line 17, Column E) +
Other Underwriting Income (Form 21, Line 19, Column E) +
Other Income (Form 21, Line 71, Column E) +
Other Income - Shareholders (Form 22, Line 19, Column A)

If a Company has incorrectly treated movements in Premium Deficiency Reserves as part of its earned premium for accounting purposes, then it should reverse these movements out for the purposes of calculating its Standard Income Statements Ratios.

For Loss Ratio, the Numerator is the Claims Incurred (in Form 21, Line 37, Column E), adjusted to exclude any changes in Premium Reserves, such as Premium Deficiency Reserves or Catastrophe Reserves.

The adjusted Claims Incurred are then divided by the Denominator to determine the Loss Ratio.

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For the Expense Ratio, the Numerator is:

Commission Incurred (Form 21, Line 38, Column E)
Minus Reinsurance Commissions Earned (Form 21, Line 18, Column E) +
Policy Acquisition Costs (Form 21, Line 39, Column E) +
Other direct underwriting Expenses (Form 21, Line 40, Column E) +
Doubtful Debt Expense (Form 21, Line 41, Column E) +
Operational and Technical Expenses (Form 21, Line 51, Column E) +
Shareholders Expenses (Form 22, Line 39, Column A) +
Zakat (Form 22, Line 51, Column A)
Taxes (Form 22, Line 52, Column A)

The Combined Ratio is defined as the Loss Ratio + Expense Ratio

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