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General Department of Insurance Control

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الموافق: 2017/12/21 م

Financial Condition Report (FCR) for 2017

الرقم: ت.ع.م/201712/145

المرفقات: 2

Circular

This circular refers to the company's Financial Condition Report (FCR) for 2017. Reference is made to part "Second" of Article (20), part "Third" of Article (20), Part (1) of Article (69) of the Implementing Regulations, and Article (28) of the Actuarial Work Regulations.

Submission deadlines

The Company must submit the required documents to SAMA according to the following schedule:

- **1 February 2018** - Reserving section of FCR Reporting Template duly filled in based on the results of the reserving exercise as at 31 December 2017 – Appendix 1
- **11 February 2018** – Actuarial Reserve Report as at 31 December 2017 (this will be a subset of the Financial Condition Report)
- **31 March 2018** – Financial Condition Report as at 31 December 2017, along with the FCR Reporting Template

Financial Condition Report 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. The other data checks to be carried out are left to the professional judgement of the Appointed Actuary.
- f) Data checks carried out for 31 December 2017 should build on those carried out as at 30 September 2017 (see below).

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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 is not necessarily required to use monthly data, but he/she 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 is not necessarily required to use quarterly data, but he/she 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, assuming the risk is uniform over the policy year.
- b) For Marine Cargo Open Cover policies, where dates of voyages are usually not available, UPR should be estimated using the last three months' premium for the relevant period as per Article 69(2) of Implementing Regulations.
- c) For shorter-than-one-year Marine Cargo policies, UPR should be determined:
 - i. Using straight-line method over the policy term as in (a) above;
or

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- 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 Regulations

4. Unexpired Risk Reserve (URR)

- a) It should be noted that any Premium Deficiency Reserve is part of the Unexpired Risk Reserve. These should be shown as additional Premium Reserves in the Financial Statements, and should not be included within Earned Premium or the UPR. The gross URR must be shown in Column E of Form 62, the reinsurance share in Column P of Form 62, and the net URR in Column AA of Form 62 of the Reporting Forms.
- b) 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 URR. SAMA had previously provided a spreadsheet to all companies and actuaries to support the calculations for the 2013 FCR, which should continue to be adopted, 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.
- c) 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(d) of the Implementing Regulations. This is subject to premiums being due on a uniform basis and the annual premium being constant over the period of the contract.
- d) For Extended Warranty policies with terms in excess of one year, the Appointed Actuary must assume that the risk will increase linearly over the policy term in determining the URR. The spreadsheet, referred to under item (b) 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.

5. 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) All expenses must be assigned to individual lines of business, supported by a comprehensive expenses analysis. This must be explicit for commissions, both direct and reinsurance, and claims management

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expenses. Other Expenses must be allocated appropriately, e.g., in proportion to GWP or GEP, and must be treated consistently year on year.

- c) Other Expenses must include all expense items allocated to both Policyholders and Shareholders, including Zakat and Income Tax. The only expenses that may be excluded are the investment expenses for both Policyholders and Shareholders.
- d) All expenses referred to under items (b) & (c) above should be sourced from audited statements of the Company, using the calculation method shown in Appendix 2. Where the calculation of PDR precedes the audit of the above expenses, any material changes in those expenses as a result of the audit exercise should lead to a change in the PDR.
- e) Any expenses that may be subject to unusual fluctuations may be smoothed. In particular, the change in Doubtful Debt Reserve must be considered as part of the Company's expenses, but consideration should be given to smoothing this item.

6. Claim Reserves – all lines of business (excluding life insurance)

- 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 2016 from the actual claims developments during the year 2017 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 2017. 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. This selection should be justified.
- e) It is expected that all reserve projections will be carried out on a gross-of-recoverables basis, and all recoverables (i.e., reinsurance, salvage, and subrogation) will be projected separately. The method of estimating the reserves for recoverables must be fully described.
- f) Claims reserves should not be discounted, unless required by the nature of those claims, e.g., annuity payments under a liability claim. Where

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discounted, the discount rate assumed should be clearly stated in the report.

- g) Methodology for estimating the Claims Expense (i.e., ALAE and ULAE) reserves should be fully described.

7. Claim Reserves – Motor-specific Requirements

- 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.
- b) In general, the Appointed Actuary should pay extra attention when selecting results based on the incurred claims data, and make adjustments as appropriate.
- c) The Company should hold a provision of 100% for all outstanding amounts of Salvage/Subrogation recoveries where the date of reporting of an accident was more than one year ago.

8. 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) SAMA expects that the Appointed Actuary will use standard actuarial methodologies to estimate the above uncertainty. This may include Bootstrapping techniques, Mack Method, or simply a range of results under various reserve methodologies.

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 should be provided to the Finance function in order to book those amounts under appropriate categories 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.
- c) In addition, for any open treaties that include Swing Rates, or any adjustment reinsurance premium or commissions based on the claims experience under the treaty or a loss participation clause, then the

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Appointed Actuary should adjust the Net Unexpired Risk Reserve, as appropriate.

10. Protection & Savings Insurance

- a) Detailed instructions for Protection & Savings Insurance are shown in Appendix 3 to this Circular.
- b) It should be noted that all Group Life and Group Credit Life must be shown as Protection & Savings business within the Reporting Forms and in the Financial Statements.
- c) In addition, all insurance companies writing either of these products must complete Form 33 showing the Solvency Margin in respect of Protection & Savings business.
- d) Particular attention should be paid to the Group Credit Life section of the above Appendix.

11. Other Contents of FCR

- a) The Appointed Actuary should review any treaty put in place to protect Medical Expense Insurance business or Motor Insurance business. The Appointed Actuary should comment on the value for money provided by the treaty. 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. The Appointed Actuary may refer to the "*Guidance Paper on Risk Transfer, Disclosure and Analysis of Finite Reinsurance*" published by the International Association of Insurance Supervisors (IAIS)¹, first published in year 2006, and most recently updated in year 2014.
- b) The Appointed Actuary must ensure that, in addition to the above, the FCR produced covers all other requirements as per the regulations.

Board Reporting

- a) 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.
- b) SAMA requires that the Appointed Actuary present his findings and recommendation at a Board Meeting, to be held before 30 April 2018.

¹ <https://www.iaisweb.org/page/supervisory-material/archive-supervisorarchive-supervisory-material-superseded-by-icps-standards-guidance-adopted-in-2011/guidance-papers/file/34128/11-guidance-paper-on-risk-transfer-disclosure-and-analysis-of-finite-reinsurance>

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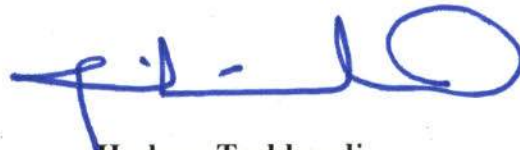
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Compliance

- 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) The Company's CEO should provide confirmation within seven days of the date of this Circular confirm that that copies have been passed to all those mentioned above.
- c) 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 2017 be carried out at the Company's expense for submission to SAMA at a date decided by SAMA.
- d) The Company management is 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. Where the Company booked reserves higher than those recommended by the Appointed Actuary, it must inform SAMA immediately about the additional reserves booked.
- e) In those rare circumstances, where the Company management intends to book reserves lower than those recommended by the Appointed Actuary, 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, including possibly an independent reserving exercise as at 31 December 2017 carried out at the Company's expense. Until the Company has obtained clearance from SAMA, the Company shall not be able to publish its financial statements.

Yours sincerely,



Hesham Tashkandi
Director General of Insurance Control

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Appendix 1

FCR Reporting Template (attached)

Starting from year-end 2018 FCR, SAMA will require all data, including the above template, to be submitted via RMS.

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Appendix 2 – Expense Ratio Definition

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)
Minus Other Underwriting Income (Form 21, Line 19, Column E)
Plus Policy Acquisition Costs (Form 21, Line 39, Column E)
Plus Other direct underwriting Expenses (Form 21, Line 40, Column E)
Plus Doubtful Debt Expense (Form 21, Line 41, Column E)
Plus Operational and Technical Expenses (Form 21, Line 51, Column E)
Plus Shareholders Expenses (Form 22, Line 39, Column A)
Plus Zakat (Form 22, Line 51, Column A)
Plus Taxes (Form 22, Line 52, Column A)

* The item “commission incurred (Form 21, Line 38, Column E)” should be replaced with the ‘expected’ commission at the portfolio level for the business to be underwritten.

The Denominator is the Net Earned Premium plus any ‘Other Income’ other than that arising from investments and underwriting activities:

Net Earned Premium (Form 21, Line 17, 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 the Denominator above.

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Appendix 3 - Protection and Savings (P&S)

1. This Appendix is included in the FCR letter for actuaries preparing technical provisions for Protection and Savings business for the year-end Financial Statements of companies in Saudi Arabia.
2. The technical provisions shown in this Appendix should always be prepared in Saudi Riyals.

Method of calculation of the Mathematical Reserves of P&S business

3. (a) 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 prudent assumptions that shall include appropriate margins for adverse deviation of the relevant factors.

(b) 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.

(c) Without prejudice to the generality of subparagraph (a) above, the amount of the Mathematical Reserves shall be determined in compliance with each of paragraphs 4 to 19 below and shall take into account, among other things, the following factors:
 - i) all guaranteed benefits, including guaranteed surrender values;
 - ii) vested, declared or allotted bonuses to which Policyholders are already either collectively or individually contractually entitled;
 - iii) all options available to the Policyholder under the terms of the contract;
 - iv) expenses, including commissions;
 - v) all discretionary charges and deductions;
 - vi) any rights under contracts of reinsurance in respect of business in the P&S Class.
4. (a) Subject to subparagraphs (b), (c) and (d) below, the amount of the Mathematical Reserves shall be determined separately for each contract by a prospective calculation.

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- (b) A retrospective calculation may be applied to determine the Mathematical Reserves where a prospective method cannot be applied to a particular type of contract or benefit, or where it can be demonstrated that the resulting amount of the Mathematical Reserves would be no lower than would be required by a prudent prospective calculation.
 - (c) Appropriate approximations or generalisations may be made where they are likely to provide the same, or a higher, result than individual calculations of the same amount of the Mathematical Reserves in respect of each contract.
 - (d) Where necessary, additional amounts shall be set aside on an aggregated basis for general risks that are not individualised.
 - (e) 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 arising from arbitrary changes and shall be such as to recognise the distribution of profits in an appropriate way over the duration of each policy.
 - (f) The Mathematical Reserves for contracts under which the Policyholder is eligible to participate in any established surplus shall have regard to the level of the premiums under the contracts, to the assets held in respect of those liabilities, and to the custom and practice of the insurance company in the manner and timing of the distribution of profits or the granting of discretionary additions, as the case may be.
5. The amount of the Mathematical Reserve determined in respect of a group of contracts shall not be less than such amount as, if the assumptions adopted for the valuation were to remain unaltered and were fulfilled in practice, would enable Mathematical Reserves similarly determined at all times in the future to be covered from resources arising solely from the contracts and the assets covering the amount of the Mathematical Reserve determined at the current valuation.

Net premium reserves

6. (a) Where further specified premiums are payable by the Policyholder under a contract (not being a unit linked contract) under which benefits (other than benefits arising from a distribution of profits) are determined from the outset in relation to the total premiums payable there-under, then, subject to subparagraph (c) and paragraph 7 below,
- (i) where the premiums under the contract are at a uniform rate throughout the period for which they are payable, the premiums to be valued shall be not greater than such level premiums as, if payable for the same period as the actual premiums under the contract and calculated according to the rates of interest and rates of mortality or disability which are to be employed in calculating the Mathematical

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Reserve under the contract, would have been sufficient at the outset to provide for the benefits under the contract according to the contingencies upon which they are payable, exclusive of any additions for profits, expenses or other charges;

- (ii) where the premiums under the contract are not at a uniform rate throughout the period for which they are payable, the premiums to be valued shall be not greater than such premiums as would be determined on the principles set out in sub-paragraph 6(a)(i) above modified as appropriate to take account of the variations in the premiums payable by the Policyholder in each year;

provided that a premium to be valued shall in no year be greater than the amount of the premium payable by the Policyholder.

- (b) Where the initial terms of the contract have changed since the contract was first made, then for the purposes of the subparagraph (a) above, it shall be assumed that those changes, from the time they occurred, were provided for in the contract at the time it was made. For the purposes of this paragraph, the terms of the contract are taken to change if the change is indicated in an endorsement on the policy but not if a new policy is issued.
- (c) An alternative valuation method to that described in subparagraphs (a) to (b) above may be used where it can be demonstrated that the alternative method results in reserves no less, in aggregate, than would result from the use of the method described in those subparagraphs.

Acquisition expenses

7. (a) In order to reduce the reserve strain during the first policy year, the Company may use Zillmer Reserve Method
- (b) 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.

Rates of interest

8. (a) The rates of interest to be used in calculating the present value of future payments by or to an insurance company shall be no greater than the rates of interest determined from a prudent assessment of the yields on existing assets attributed to the P&S Class business and, to the extent appropriate, the yields which it is expected will be obtained on sums to be invested in the future.
- (b) For the purposes of subparagraph (a) above, the assumed yield on an asset attributed to the P&S Class business, before any adjustment to take account of the effect of taxation and Zakat, shall not exceed the yield on that asset

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calculated in accordance with subparagraphs (c) to (e) below, reduced by 5 per cent of that yield.

For the purpose of calculating the yield on an asset, the asset shall be valued in accordance with Article 65 of the Implementing Regulations, subject to the additional rules in this Appendix.

- (c) For fixed interest investments the yield on an asset, subject to subparagraph (e) below, shall be that annual rate of interest which, if used to calculate the present value of future payments of interest before the deduction of tax and Zakat and the present value of repayments of capital, would result in the sum of those amounts being equal to the value of the asset.
- (d) For equity shares or immovable property, the yield on an asset, subject to subparagraph (e) below, shall be the ratio to the value of the asset of the income before deduction of tax and Zakat which would be received in the period of twelve months following the valuation date on the assumption that the asset will be held throughout that period and that the factors which affect income will remain unchanged, taking into account any changes in those factors known to have occurred by the valuation date.
- (e) In calculating the yield on an asset under this paragraph -
- i) if the asset does not consist of equity shares or immovable property -
 - a prudent adjustment shall be made to exclude that part of the yield estimated to represent compensation for the risk that the income from the asset might not be maintained or that capital repayments might not be received as they fall due, and
 - in making that adjustment, regard shall be had wherever possible to the yields on risk-free investments of a similar term in the same currency;
 - ii) for assets which are equity shares or immovable property, adjustments to yields shall be made as appropriate to exclude that part, if any, of the yield from each category of asset that is needed to compensate for the risk that the aggregate income from that category of asset, taking one year with another, might not be maintained. For the purposes of this subparagraph, a "category of asset" comprises assets of a similar nature, type and degree of risk.
- (f) In no case shall a rate of interest determined for the purposes of subparagraph (a) above exceed the adjusted overall yield on assets calculated as the weighted average of the reduced yields on the individual assets arrived at according to the provisions of subparagraph (b) above; and when that weighted average is calculated -

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- i) the weight given to each investment shall be its value as an asset determined in accordance with Article 65 of the Implementing Regulations, subject to the additional rules in this Appendix, and
 - ii) except in relation to the rate of interest used in valuing payments of unit linked benefits, both the yield and the value of any linked assets shall be omitted from the calculation.
- (g) The maximum rate of interest to be applied before any adjustment which takes into account the effect of taxation and Zakat shall be the lesser of:
- i) the yield as calculated in subparagraph (b) above, and
 - ii) the yield available on long term Saudi Government sukuks or bonds, where "long term" is specified as the maximum duration of the available Saudi Government sukuks or bonds in issue, but not exceeding 15 years, with a maximum rate of six per cent (6.0%) per annum.
- (h) For the purpose of determining the rates of interest to be used in valuing a particular category of contracts the assets may, where appropriate, be notionally apportioned between different categories of contracts.
- (i) Where the Mathematical Reserves are denominated in currencies other than Saudi Riyals, the yield shall be determined on assumptions that are as prudent as those made under subparagraphs (c) to (h) above, interpreted in the context of the jurisdiction relevant to that currency.

Rates of mortality and disability

9. The amount of the Mathematical Reserves in respect of any category of contract shall, where relevant, be determined on the basis of prudent rates of mortality and disability. The rates used shall be based on relevant tables of mortality and disability published internationally, adjusted, where appropriate, to represent the experience of the company and the market in which the contract is written.

Provision for expenses

10. (a) Provision for expenses, whether implicit or explicit, shall be not less than the amount required, on prudent assumptions, to meet the total net cost, after taking account of the effect of taxation and Zakat, that would be likely to be incurred in fulfilling all contracts then in force if the company were to cease to transact new business twelve months after the valuation date.
- (b) The provision mentioned in subparagraph (a) above shall have regard to, among other things, the company's actual expenses in the last twelve months before the valuation date and to the effects of inflation on future expenses on prudent assumptions as to the future rates of increase in prices and earnings.

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- (c) Where the company writes short term Protection & Savings, General and/or Health insurance, the expense provision should allow for all projected expenses over the run-off period for all in-force contracts, not just those for Protection & Savings contracts.

Future bonuses

11. Account shall be taken either explicitly or implicitly of 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.

Options

12. (a) Provision shall be made on prudent assumptions to cover any increase in liabilities caused by Policyholders exercising options under their contracts.
- (b) Where a contract includes an option whereby the Policyholder could secure a guaranteed cash payment within twelve months following the valuation date, the provision for that option shall be such as to ensure that the value placed on the contract is not less than the amount required to provide for the payments that would have to be made if the option were exercised.
- (c) Where the surrender value of a contract is guaranteed, the provision for the contract at any time shall be at least as great as the value guaranteed at that time.

Contracts not to be treated as an asset

13. No contract shall be treated as an asset.

Unit-linked contracts

14. 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.
15. The Appointed Actuary should ensure that the number of units allocated to policies is correct and that the calculation of the unit prices is correct. Unit prices should be calculated using asset values consistent with the way that assets are valued in the balance sheet.
16. 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 the following guideline assumptions:
- a) The assessment of appropriate assumptions for future experience should have regard to past, current and expected future experience and to any other relevant data.

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- b) Economic assumptions regarding future investment yields on various classes of investment and inflation must be internally consistent and should be consistent with observable, reliable market data.
- c) The mortality rates and other claim incidence rates (such as Permanent Total Disability, Accidental Death Benefit etc.) should be based on the company's recent experience, over at least the last three years, if sufficient data are available for statistically credible rates, otherwise standard published tables (adjusted if appropriate) should be used. The Appointed Actuary should ensure that any investigation of these rates is carried out rigorously. The Appointed Actuary should report to SAMA full details of the investigations carried out into these rates.
- d) Subject to paragraph 17 below, discontinuance rates should be based on the company's recent experience. The Appointed Actuary should check that any investigation of discontinuance rates has been carried out rigorously and that, in particular, delays in identification of lapses are not undermining the statistics. Discontinuance rates normally vary by type of policy and the duration that the policy has been in force, and the investigation should take this into account. The Appointed Actuary should provide full details to SAMA of the investigations carried out into discontinuance rates.
- e) Per policy expense assumptions should be based on an analysis of the company's actual expenses. It is essential that all expenses of the company are included in the expense analysis and that the analysis of the expenses into the different categories of acquisition and renewal expenses is rigorous and appropriate. The Appointed Actuary should report to SAMA the full details of the expense analysis carried out.
- f) If the calculation produces a negative result for any contract, it should be set to zero.

Allowance for voluntary discontinuance

17. Allowance shall not be made in the valuation for the voluntary discontinuance of any contract if the amount of the Mathematical Reserves so determined would thereby be reduced. Where allowance for voluntary discontinuance increases the reserve required, prudent rates of discontinuance should be allowed for, based on the company's recent experience.

Mathematical Reserves on Group Life business

18. It should be noted:
- a) 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

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remaining period from the valuation date until the expiry of the current period of insurance.

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

Mathematical Reserves on Group Credit Life business

- 19. (a) 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.
- (b) 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.
- (c) Loss rates per mille of Sum Insured should be considered for at least the past three years. Where there is any indication of deteriorating experience the Appointed Actuary should make a prudent allowance for ongoing deterioration in experience.
- (d) 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 a prudent assumption on the average age of new joiners.
- (e) 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.

Outstanding claims (including IBNR)

- 20. (a) The Appointed Actuary should identify the reserves that are held in respect of outstanding claims and confirm that the accounts accurately reflect them. Both Gross claims and reinsurance recoveries should be checked, paying particular attention to any single value in excess of SR100k.

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(b) Outstanding Claims (including IBNR) may assume claims reporting delay patterns are homogenous for all Protection & Savings business except Group Credit Life.

(c) 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.

Contents of the Report to SAMA, certificates and signatures

21. SAMA will largely leave the Appointed Actuary to write his own report on the methods, assumptions and calculations of the technical provisions, but SAMA will specify some matters that must be included, namely the data, methods, assumptions and calculations used in calculating the Mathematical Reserves at the end of each year.
22. The Appointed Actuary's report should include:
 - a) A certificate signed by the Appointed Actuary certifying, if such is the case, that the Mathematical Reserves have been determined in accordance with Appendix 3 of SAMA's FCR letter for 2017, and stating the total amount of the Mathematical Reserves at 31 December 2017.
 - b) 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.
 - c) Where a retrospective method has been used in accordance with paragraph 4(b) of this document, a statement giving details of the tests carried out to ensure that the resulting amount of the Mathematical Reserves would be no lower than would be required by a prudent prospective calculation.
 - d) Where additional amounts have been set aside on an aggregated basis for general risks that are not individualised in accordance with paragraph 4(d) of this document, a statement giving details of the additional amounts, the reasons for them and how they were calculated.
 - e) A statement, if such is the case, that the method of calculation of the amount of the Mathematical Reserves and the assumptions used were not subject to discontinuities from year to year arising from arbitrary changes and were such as to recognise the distribution of profits in an appropriate way over the duration of each policy.
 - f) A statement describing the valuation method for contracts that are not unit-linked contracts, if this was not the net premium method implied by paragraph 6 of this document.

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- g) A statement describing the allowance for acquisition expenses, if any, made in accordance with paragraph 7 of this document.
 - h) A statement of all the rates of interest assumed in the valuation in accordance with paragraph 8 of this document, and the types of contracts that each rate applied to.
 - i) A statement of all the rates of mortality and disability assumed in the valuation in accordance with paragraph 9 of this document, 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 may be made to the standard tables.
 - j) 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.
 - k) A detailed description of how the valuation allows for the company's expected future expenses, in accordance with paragraph 10 of this appendix, showing how the expense allowances in the valuation relate to the actual renewal expenses incurred as determined in sub-paragraph (j) above.
 - l) 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 in accordance with paragraph 11 of this document.
 - m) A description of the way in which the valuation makes prudent provision for options and guarantees in accordance with paragraph 12 of this document.
23. The admissible value of the assets for regulatory purposes is restricted by Article 65 of the Implementing Regulations and Table (2) of those regulations sets maximum admissibility percentages for each type of asset.
24. The amount of the regulatory capital will be equal to the Solvency Margin for Protection and Saving Insurance business calculated in accordance with Article 67 in the Implementing Regulations, plus the amount of solvency capital for General and Health Insurance business calculated in accordance with Article 66 in the Implementing Regulations.