

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

Circular

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المرفقات: ----

Chief Executive Office

Subject: Persistency Report 2017

This circular refers to the Persistency Report as required in the Actuarial Work Regulation.

A copy of this circular should be passed on to the Company's Board of Directors, Audit Committee, Appointed Actuary, Risk Management officers and Compliance Officer.

Reference is made to Article (32) of the Actuarial Work Regulation.

Persistency Report

If the Insurance Company writes Savings products, then the Appointed Actuary shall submit an annual Persistency Report to the Company's Management, Board of Directors and SAMA by the end of the fifth month of the financial year. For the year 2017, this deadline has been revised to 31 July 2017.

The report, at the minimum, shall cover the following:

- a. The report should separately consider all material individual long-term Protection and Savings products written by the Company including, but not limited to, the following product types:
 - i. Term
 - ii. Universal Life
 - iii. Unit-linked

Group business should be excluded from the persistency study.
- b. Persistence Rates should be determined on a monthly basis for the first three policy years of the product from inception, and annually for policy year four onwards.
- c. Persistency Rates should be determined both by annualised premium and by numbers of policies.
- d. Persistency rates should be determined separately for each distribution channel including, but not limited to, the following:
 - i. Bancassurance
 - ii. Agency
 - iii. Broker
 - iv. Direct
 - v. Online

١٧

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

- e. Persistency Rates should be determined separately by the frequency of premium payment.
 - i. Monthly
 - ii. Quarterly
 - iii. Semi-annual
 - iv. Annual
 - v. Single premium (only by number of policies)
- f. Persistency Rates should be determined separately by region.
- g. The Period of Investigation must be stated explicitly.
 - i. All data up to December 31, 2016 should be included in the persistency report.
 - ii. It is important that lapse rates are derived separately for policies issued in each calendar year.
 - iii. The Period of Investigation shall be a minimum of 5 years or since the time the Company started selling the Savings portfolio if less.
- h. A precise statement of how the Exposure has been determined should be stated. It is expected that exposures will be determined using the precise number of days to which all policies are in-force and paying premiums.
 - i. Show all policy status to be included in the exposure calculation. Refer to Appendix 1.
 - ii. Exclude policies cancelled during the 'Free Look' period from the persistency analysis.
- i. A precise definition of the lapse event considered should be stated.
 - i. Show all policy status included in the lapse event.
 - ii. Lapses should include all policyholder selected options that lead to all premium payments under the contract ceasing permanently.
 - iii. Each type of lapse should be identified separately. Refer to Appendix 1.
 - iv. Exclude policies cancelled during the 'Free Look' period from the persistency analysis.
 - v. Explain treatment of Waiver of Premium (WOP) claims.
- j. The number of policies and total annualized premiums that are cancelled within the "Free Look" period permitted by Article (26) of the Insurance Market Code of Conduct Regulation should be stated.
- k. The report should also consider all other events that represent a reduction in the policyholders' commitment to paying regular premiums at the initial contracted level. This would include partial surrenders, policy loans, policies being made paid up either through the choice of the policyholder or due to premiums ceasing, and premium decrements to a lower level than the initial level of the annualised premium.

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Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

- l. The Company's process for lapsing policies should be set out in detail. In particular, the process when a premium is not received should be stated. Full details should be provided of all policies with outstanding premiums on the final day of the Period of Investigation. Late premiums should be subdivided by the number of weeks those are over-due by.
- m. The Appointed Actuary should investigate the Company's history of collecting premiums from policies where premiums are over-due.
- n. In addition to the calculation of the lapse rates, the Appointed Actuary should also show the in-force rates, that is, the proportion of policies, by number and annualised premiums, where full premiums have been received by the Company.
- o. The Appointed Actuary should compare the persistency rates determined with the in-force rates. Differences may arise from pipeline delays in processing lapse events after premium due dates. Where there are material differences in the in-force rates and the persistency rates, the Appointed Actuary should investigate further to analyse the proportion of policies which resume paying premiums when payments are overdue.
- p. If the Company has more than one distinct portfolio of Protection & Savings business, then the Appointed Actuary should produce separate persistency reports for each portfolio.
- q. The Appointed Actuary is not required to sub-divide his analysis beyond the level of materiality. However, any simplifications in the analysis must be justified in numerical terms.
- r. The Appointed Actuary should consider whether there is sufficient data to be able to assess useful confidence intervals around the lapse rates determined. If there is sufficient data, then confidence intervals should be shown as appropriate.
- s. Use of an automated IT system to perform the persistency analysis is highly encouraged to enable the Company to generate persistency reports periodically.
- t. Refer to **Appendix 1** for a table of contract statuses showing exposures and lapse types that should be considered.

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

Furthermore, some considerations to be addressed are discussed below:

Reports

The Appointed Actuary must ensure that the actuarial report is clear and comprehensive so that another experienced Actuary can follow the report and come to a similar conclusion as recommended by the Appointed Actuary. The report must contain, as a minimum, the following:

- a. A clear statement that he or she is acting in a formal capacity as the Appointed Actuary.
- b. A description of the actuarial guidance that is being followed.
- c. Dates of all prior reports on persistency prepared by the Appointed Actuary in relation to the Company.
- d. Comments on all related reports from other actuaries that were produced for the client Company.
- e. If the prior actuarial reports were not reviewed or considered, full justification should be provided for the lack of such review.
- f. Material changes to the methodology and assumptions from prior reports should be summarised and highlighted, and the reasons for such changes should be explained.
- g. Explanation of the selection of all material assumptions and the reason for their choice provided. Any reliance on an external source should be documented.
- h. An explanation of the methodology adopted by the Appointed Actuary should be included. The formulae used should be clearly documented.
- i. Other actuaries who worked on the report should be identified.
- j. Any financial, organizational or other dependency concerning any matter related to the subject of the report, and any relevant information that is not apparent should be disclosed.
- k. A glossary of terms used.
- l. The Appointed Actuary may show smoothed results for persistency, provided he also shows results using raw data.
- m. A statement that the lapse rates determined are consistent with other financial modelling carried out.
- n. A comparison between the new set of results and the previous set from the last persistency analysis.
- o. For internal reporting, a persistency study should be performed at least twice a year or more frequently at the discretion of the Company and the Appointed Actuary.
- p. Commentary on the persistency results and recommendations for management to be included in order to provide a better understanding of the results.

3/1

Saudi Arabian Monetary Authority

HEAD OFFICE

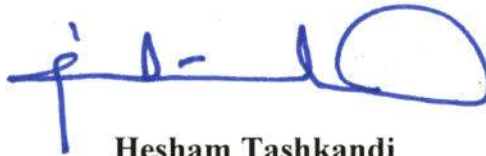
General Department of Insurance Control

Data

The Appointed Actuary must take all reasonable steps to ensure the consistency, accuracy and completeness of the data used in the analysis. All formal reports should contain, as a minimum, the following:

- a. Confirmation that the available data allows the desired analysis to be completed in the Appointed Actuary's professional judgment.
- b. Disclosure of known material data limitations and their implications.
- c. A full description of the data that was used.
- d. A full description of all data validations carried out.
- e. The precise Period of Investigation that the data is derived from must be stated.
- f. Reasonableness checks against data in the most recent prior reports should be described.
- g. Any adjustments or filtering of the raw data should be explained, and an attempt made to measure the impact.
- h. If the Appointed Actuary decides that performing a data review is not possible, the report should indicate that such a review has not been carried out (and the reason behind that) and should disclose any resulting limitation on the use of the actuarial work produced.
- i. It is not acceptable for an Appointed Actuary's report to include caveats that seek to place full reliance on others for data quality issues. The Appointed Actuary is expected to carry out sufficient checks to satisfy himself or herself in the results of the report presented.

Yours sincerely,



Hesham Tashkandi
Acting General Director of Insurance Control

Saudi Arabian Monetary Authority

HEAD OFFICE

General Department of Insurance Control

Appendix 1: Contract Status

Below is the table of contract statuses showing exposures and lapse types that should be considered:

Contract Status	Exposure	Lapse	Identify Rates Separately
Cancelled During 'Free Look' period	Exclude	Exclude	
In-Force	Include full period	Exclude	
Death or other risk claim leading to policy termination	Include to event	Exclude	
Expired	Include to event	Exclude	
Maturity	Include to event	Exclude	
Lapse without value	Include to event	Include	Yes
Surrendered with a payment made	Include to event	Include	Yes
Paid Up – Policyholder request	Include to event	Include	Yes
Paid Up – Lost contact with Policyholder	Include to event	include	Yes
Conversion of product to type requiring no future premium payments	Include to event	Include	Yes
Premium Holiday	Include full period	Exclude	Yes
Policy Loan (if permitted)	Include full period	Exclude	Yes
Premium Decrement	Include full period	Exclude	Yes
Partial Surrender	Include full period	Exclude	Yes
Conversion of product to type requiring lower future premium payments	include full period	Exclude	Yes
Waiver of Premium on Disability	Include to event	Exclude	

5/1