

# تعميم

الرقم: ت.ع.م/188/202010

التاريخ: 04/10/2020

## الموضوع: **Actuarial Report on Appropriateness of Reinsurance/Retrocession Arrangements and Risk Retention Levels**

With reference to Actuarial Work Rules for Insurance, Article 58 and Article 59, this circular contains instructions for the insurance company "Company" for submission of annual reinsurance report, hereinafter called "Report". Where the Company writes inwards reinsurance business, all references to insurance and reinsurance in these instructions shall be deemed to read as reinsurance and retrocession respectively.

### Purpose

The purpose of the Report is for the Appointed Actuary to:

- Enable the Company management and the Board of Directors to make informed decision on the Company's reinsurance arrangements
- Assess the appropriateness of existing reinsurance treaty ("Treaty") arrangements of the Company, of existing risk retention levels under each line of business, of Treaty features (e.g., profit sharing mechanisms, variable commission, loss sharing mechanisms, etc.), using sound actuarial techniques
- Make clear recommendations to the Company management and the Board of Directors on the improvements required to be made to the Treaty type, retention levels, and/or Treaty features, with due regard to the Company's risk appetite, capital adequacy and exposures underwritten
- Comment on the effectiveness of the Company's procedures to assess whether or not any Treaty transfers significant insurance risk to the reinsurer

### Report

The Report shall comprise the following sections, at a minimum:

#### 1. Data

This shall include, at a minimum, the following:

- a) Current Treaty arrangement for each line of business

- b) Historical reinsurance performance under both Treaty and Facultative arrangements
- c) Gross exposures currently underwritten and that expected to be underwritten next year
- d) Existing panel of reinsurers, their ratings, Treaty share, and ceded reserves
- e) Results of data reconciliation performed

## 2. Methodology

This shall include, at a minimum, the following:

- a) Detailed description of methodologies used for each line of business, each treaty type, and each Treaty layer where non-proportional, including
  - i. Claim Distributions used for claims frequency, claims severity, and aggregate claims
  - ii. Goodness-of-fit tests performed
  - iii. Exposure curves used
- b) Assumptions used, also identifying where those were based on external sources
- c) Adjustments made to the above analysis due to issues (if any) identified in data reconciliation
- d) Definition of 'significant insurance risk' and approach used to determine the effectiveness of the Company's internal process for assessing whether or not any Treaty transfers significant insurance risk to the reinsurer

## 3. Results and Recommendations

This shall include, at a minimum, the following:

- a) Clear recommendation on the appropriate Treaty arrangement, including risk retention levels and Treaty features, in respect of each line of business
- b) Detailed rationale supporting the above recommendation, also demonstrating consideration of the Company's risk appetite, solvency position, and exposures underwritten at present and those expected to be written next year
- c) Recommendations on improving the Company's internal process for assessing whether or not any Treaty transfers significant insurance risk to the reinsurer

A reinsurance template ("Template"), designed to capture a summary of the above Report, shall also be filled by the Appointed Actuary. The Template is attached as Appendix 1.

Submission

The Report and the Template 'attached' must be submitted via RMS as well as via email to [IC.Tec@sama.gov.sa](mailto:IC.Tec@sama.gov.sa).

For the purpose of this year submission only, the submission deadline will be postponed to 31st of October 2020, rather than 30th of September, which was instructed by SAMA; as per the issued circular dated 26/03/2020.

#### Scope of Actuarial Modelling

For this year only (2020), the scope of actuarial modelling has been reduced to cover i) at least 50% of reinsurance premium for the year 2020, or ii) a minimum of two lines of business, whichever is higher. To meet these criteria, the Appointed Actuary shall select the lines of business in agreement with Company management.

#### Board and Management Responsibilities

The Appointed Actuary must present his recommendations stated in the above Report to the Board of Directors within two (2) months of producing the Report, or before the Board's decision on next year's Treaty arrangements, whichever is earlier. The relevant minutes of the Board meeting, clearly identifying whether the Board accepted or rejected the above recommendations, in part or in full, must be submitted to SAMA within one month of holding the Board meeting.

For any clarifications, you may approach SAMA at [IC.Tec@sama.gov.sa](mailto:IC.Tec@sama.gov.sa).

Appendix 1

Reinsurance Template (Attached)

**Kind Regards,**

**General Department of Insurance Control**