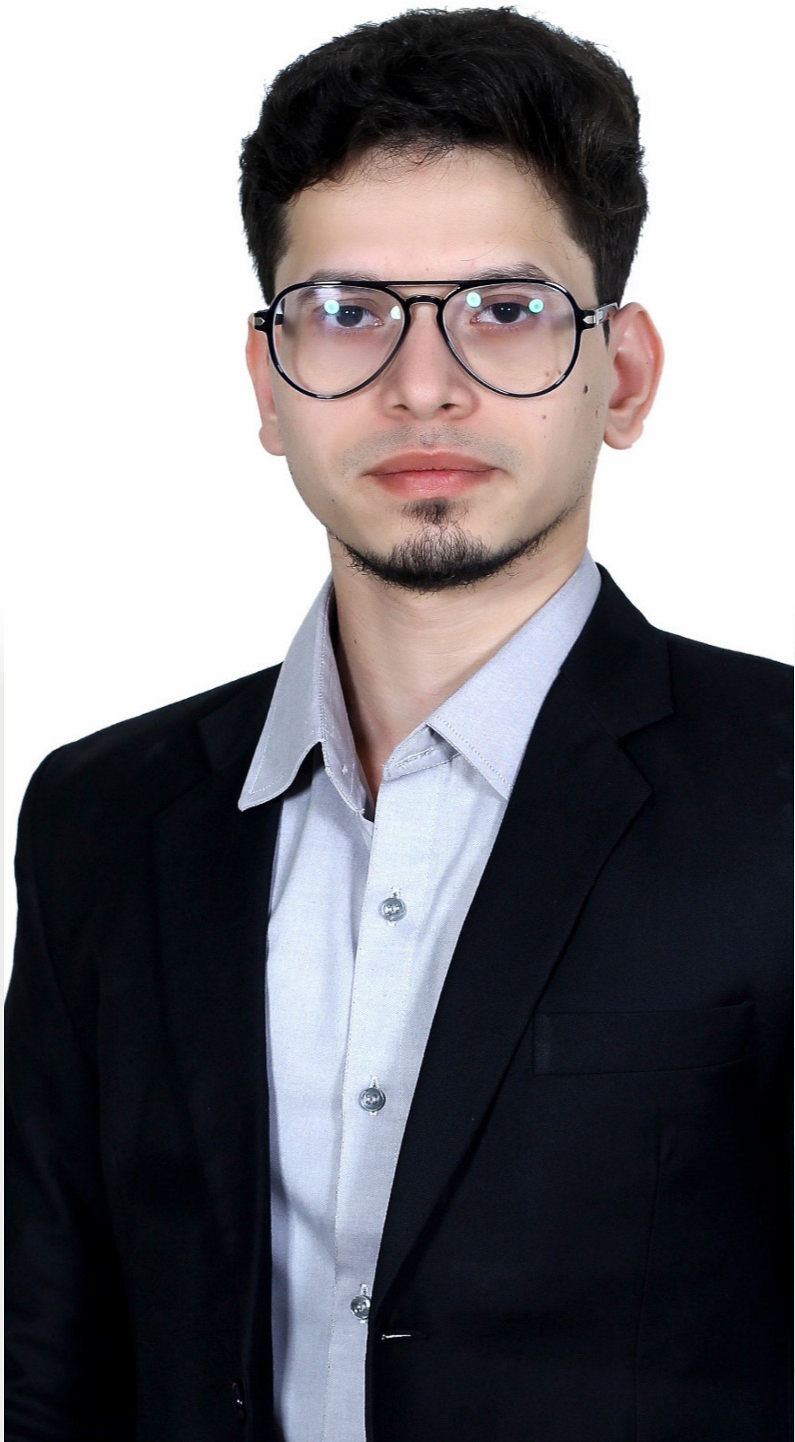
Actuarial Pricing:

Key Contributor to Restoring Profitability In The Kingdom of Saudi Arabia Motor Insurance Market



As a seasoned Actuary with a decade of experience in the Kingdom's (KSA) insurance market, I have witnessed significant growth over the past two years. The market has expanded from $9.9 billion in 2020 to $13.8 billion in 2022 and a staggering $13.0 billion by Q3 2023.

The insurance market in KSA is primarily dominated by two main sectors, Health and Motor. Health insurance stands as the largest contributor, comprising roughly 60% of the overall market, followed by motor insurance, which constitutes approximately 20%.
Notably, the motor insurance market has shown a similar increasing trend as the market grew over the past two years. A strategic pricing initiative targeting the previously uninsured segment was implemented in Q4 2023 to achieve enhanced market penetration. This initiative demonstrated efficacy, with Gross Written Premium (GWP) for motor insurance exceeding the corresponding period in 2022 by approximately 30%. As a result, year-end 2023 motor insurance premium forecasts have been upwardly revised to reflect this growth trajectory. The final projected motor premium amount for year-end 2023 is $3.8 billion.

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Challenges in the KSA Motor Insurance Market

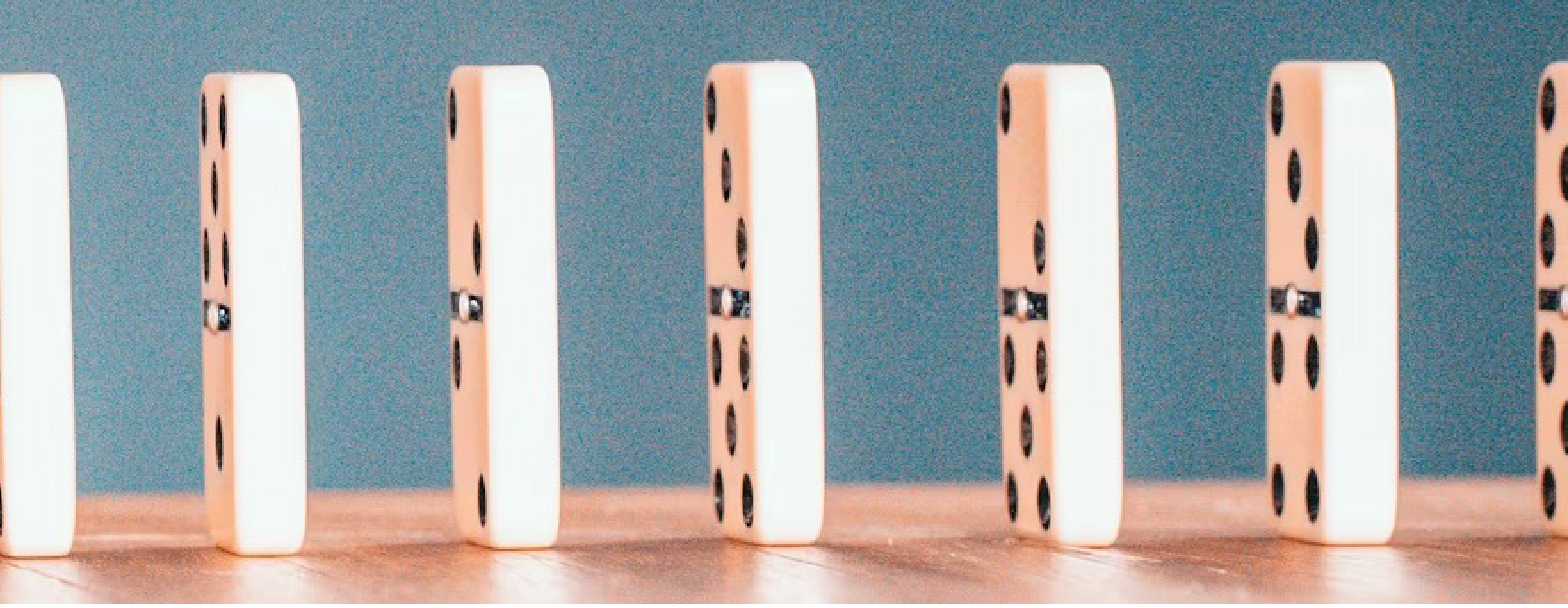
There has been notable premium volatility in the insurance industry over the past two years, particularly within the motor sector, which constitutes roughly 20% of the Gross

Written Premium (GWP). Despite the overall post-pandemic growth and underwriting profits witnessed in the industry, the motor insurance segment has encountered distinct challenges.
KSA's motor insurance market boasts an impressive average retention rate of 95% for written business. However, this concentration also translates to increased vulnerability in terms of claims experience. The relaxation of COVID-19 restrictions during the financial year 2021 led to a surge in traffic and, consequently, claim activity. This, coupled with a post-pandemic eagerness to regain market share, resulted in a price war among insurers. Premiums became increasingly competitive, ultimately eroding profitability. Underwriting profits, which stood at a health of $99.5 million in the previous year, plummeted to a concerning $113 million loss within a single year.

A comprehensive analysis identified both quantitative and qualitative factors contributing to this decline. The post-pandemic recovery period saw insurers aggressively price policies to recapture lost business. Additionally, the rise of aggregator platforms offering convenient online access to insurance further intensified price competition. Consumers, prioritizing affordability, gravitated towards the lowest premiums, exacerbating the downward pressure. Notably, a significant portion of the market's business shifted towards Third Party Liability (TPL) coverage facilitated by aggregator platforms, emerging as a primary driver of losses in the motor insurance segment. Despite the challenges, as of 2023, roughly 65% of the total business written in the Motor TPL Retail segment continues to be facilitated through aggregators. Aggregators allow easier market access. We have however seen the "winners curse" apply. Without strict controls in place, insurers can easily end up writing very high levels of unprofitable business over very short periods.

Market Recovery

The industry responded, recognizing the need for stricter pricing and production controls, under the guidance of the Regulator, the Insurance Authority (formerly Saudi Central Bank) and with technical input from experienced actuaries. The pricing methodologies recommended by regulators and implemented by Appointed Actuaries had a significant impact on enhancing overall market behaviour in terms of rating accuracy, quality, and risk selection. Transitioning from conventional pricing practices, such as "market benchmarking" and burning cost, (which unfortunately are still prevalent across the GCC region) towards the adoption of the Generalized Linear Modeling (GLM) approach posed considerable challenges. However, through the concerted efforts of Actuaries and regulatory emphasis, the industry successfully adopted GLM pricing methodologies, leading to a positive upward trend in the market once again.



The regulators' consistent monitoring efforts and the active involvement of Actuaries within the industry have significantly enhanced risk selection practices, offering substantial benefits to the market. Additionally, companies are strategically diversifying their portfolio mix within the motor segment, with a focus on expanding corporate business and exploring alternative distribution channels beyond aggregator reliance, although a significant portion of business still originates from aggregators These measures, implemented through out 2023, have shown promising signs of recovery. While final results are yet to be finalized, the market appears to be stabilizing. This episode underscores the critical role of Actuaries in ensuring the long-term sustainability of the motor insurance market.

The Role of Actuaries and the Road Ahead

The key takeaway from this experience is the paramount importance of Actuaries and robust risk management practices. The proactive approach from the Regulator encouraging higher technical standards for pricing and the importance of technical pricing by Actuaries has also been key. Proactive monitoring of key metrics and timely adjustments to pricing and coverage are essential for maintaining profitability. This continuous monitoring process is akin to diligently checking the engine light on your dashboard – a proactive approach is crucial to avoid significant issues down the road.

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