Actuarial Valuations for

EOSB in KSA

2025

Kingdom of Saudi Arabia

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Introduction

The actuarial valuation market in Saudi Arabia has witnessed substantial expansion driven by the rigorous adoption of International Financial Reporting Standards (IFRS) and the strategic imperatives stemming from Vision 2030. This transition reflects the Kingdom's commitment to enhancing corporate governance and aligning with international business practices.

As companies adapt to these global standards, the need for thorough and accurate reporting of long-term employee benefits, particularly End-of-Service Benefits (EOSB), has become critical, demanding strategic attention from company executives and board members. The combination of global accounting standards and new ZATCA requirements has driven robust demand for professional EOSB valuations across the Saudi corporate sector.

Mandatory Scope:

Who Must Comply

Actuarial valuation is mandatory for entities in Saudi Arabia that carry long-term employee or policyholder obligations. These include:

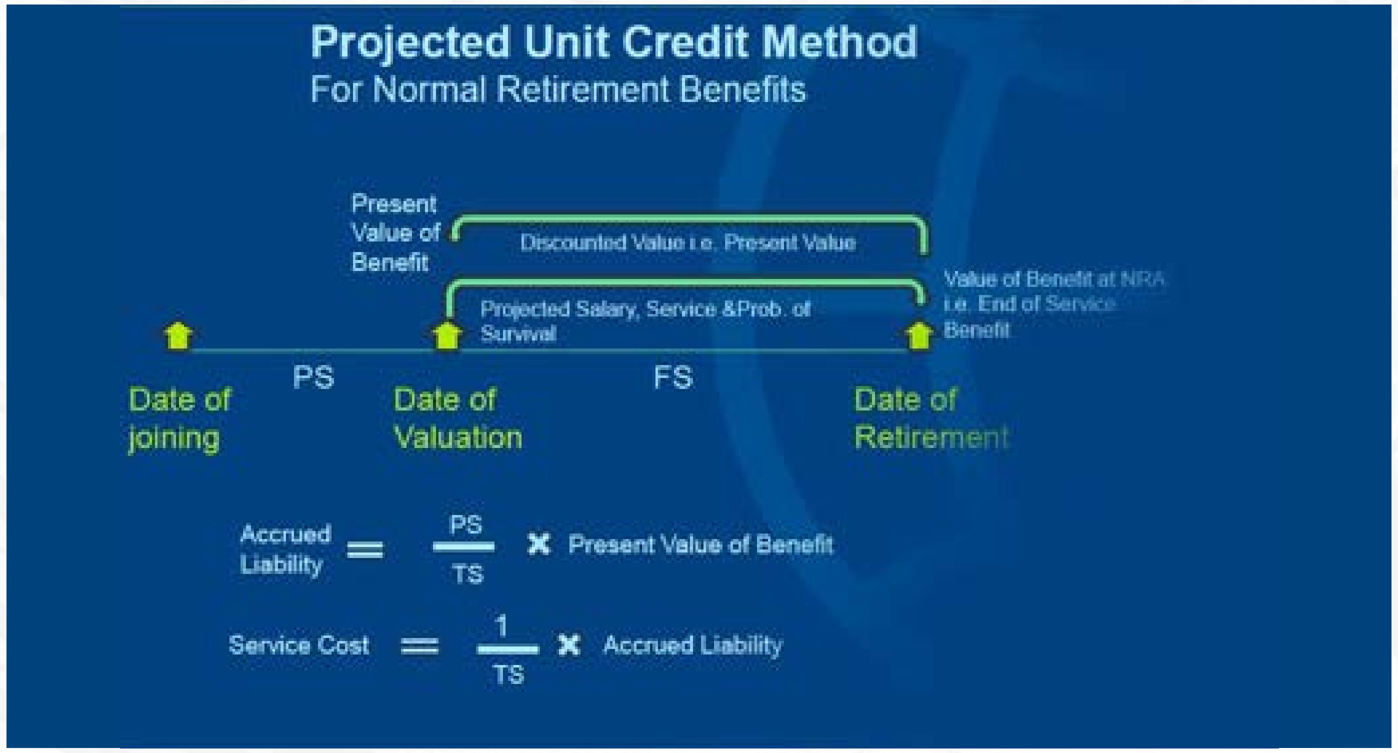
1. Corporates with EOSB liabilities that are required to assess end-of-service obligations under IFRS.
2. Insurance companies and Takaful operators.
3. Listed companies and large private firms
4. M&A, IPO, and due diligence cases.

PUCM Methodology

Projected Unit Credit Method (PUCM):

The cornerstone of EOSB valuation in Saudi Arabia is the Projected Unit Credit Method (PUCM), the actuarial technique mandated under IFRS for determining the liabilities of post-employment defined benefit obligations. This actuarial technique offers a nuanced understanding of future obligations by capturing the true economic value of benefit payments through sophisticated modeling.

At Insights, we use this method as a core of our EOSB valuations. While the Saudi Labour Law prescribes EOSB as a step-rated benefit arrangement (offering lower benefits during the early years of service and higher benefits in later years), PUCM allocates the liability on a straight-line basis over the employee's period of service. This approach ensures consistency, transparency, and full compliance with IFRS requirements.



PUCM Methodology – Assumptions & Challenges

Assumptions Involved:

The accuracy and reliability of PUCM calculations depend heavily on the appropriateness and credibility of actuarial assumptions. These represent significant sources of estimation uncertainty and require careful consideration. These include financial and demographic assumptions:

Discount Rate:
Defined explicitly under IFRS as the yield on high-quality corporate bonds of appropriate duration. Where a deep market for such bonds does not exist, entities may use the yield on government bonds as an alternative permitted by IFRS. In Saudi Arabia (where a broad corporate bond market is limited), valuation teams typically use yields on Saudi government bonds (Sukuk) of comparable duration.

Salary escalation:
Future wage growth (inflation, promotion policies, merit increases) must be projected and built into the model.

Turnover/attrition:
The probability that employees will leave before retirement (resignation, termination, end-of-contract, etc.).

Mortality, Disability & Ill Health:
Statistical probabilities of death or disability affecting benefit payouts.

Key Challenges:

While conducting an actuarial valuation several challenges may arise, including

Data Integrity Issues:
Inaccurate Data, not technically equipped HR.

Economic Volatility:
Recent market swings and changing labor trends make it hard to set stable salary-inflation or turnover rates.

Reconciliation Issues:
Companies sometimes struggle to reconcile the actuarial outcome with tax/zakat rules (especially now that EOSB is treated differently in zakat calculations).

Assumptions Sensitivity:
EOSB liabilities demonstrate high sensitivity to small changes in core assumptions. Fluctuations in discount rates or salary growth projections can cause material balance sheet volatility, creating financial reporting challenges.

Regulatory Complexity:
Navigating the evolving landscape of IFRS, SOCPA, and local labor laws requires continuous monitoring and adaptation of valuation methodologies.

Technical Expertise Gap:
There is a shortage of qualified local actuaries with specialized knowledge of both international standards and Saudi-specific workforce dynamics, forcing many firms to rely on external consultants.

Recommendations from INSIGHTS

To surmount the aforementioned hurdles and achieve high-quality valuations, we recommend that below best practices should be implemented:

Strengthen Data Governance:
Integrating HR and finance systems to ensure employee records are reliable and easily accessible is essential. Define clear data ownership and validation processes to enhance data quality.

Data Standardization:
Establish consistent data formats, definitions, and classification structures across HR and finance systems to ensure accuracy and comparability in actuarial inputs. Insights unifies HR and payroll information using structured templates and automated validation to improve data accuracy.

Robust Planning:
Start the valuation process well in advance of deadlines to allow for comprehensive analyses. Continuous monitoring of the impact of economic changes on assumptions is critical for maintaining valuation accuracy.

Review assumptions regularly:
IFRS encourages actuarial valuations to be conducted at the end of every reporting period. CFOs should build an annual valuation cycle into finance calendars. As one expert notes, assumptions "aren't 'set and forget'" – in volatile markets, failing to refresh discount rates or turnover assumptions can lead to material misstatements. We advise firms to benchmark assumptions to market data (e.g. current bond yields and inflation forecasts) and internal experience studies before each valuation.

Foster cross-functional collaboration:
Early engagement of HR, payroll, and finance is essential to ensure actuarial valuations align with actual benefit policies and workforce structures. HR should validate headcount data and eligibility criteria, while finance ensures consistency of remuneration records with accounting systems. At Insights, we collaborate closely with client teams to integrate accurate inputs and deliver transparent, well-understood actuarial outcomes.

Strengthen Data Governance:
Collaboration between Finance and HR departments to ensure employee records are reliable and easily accessible is essential. Define clear data ownership and validation processes to enhance data quality.

How we are simplifying complex Actuarial Valuations for our clients

We have designed a streamlined and transparent client engagement cycle that transforms complex actuarial processes into a structured, hassle-free experience. From onboarding to project closure, our approach ensures clarity, compliance, and confidence at every stage.

Initiation: Once the client is signed, a standard EOSB data template is shared with the authorized personnel from the client.

Data Correspondence: If the client faces any problem in completing the data template, then assistance is provided by our team.

Provision of Data: Once the data template is filled, the client shares the data with us.

Analysis of Data: EOSB data is carefully analyzed for its appropriateness and completeness. The actuarial and economic assumptions are then formulated.

Data Anomalies: After approval of assumptions & evaluation of data, if there are any anomalies, the query(ies) are generated and resolved by communicating with the management.

Performing Valuation: Valuation is then carried out using the Projected Unit Credit actuarial cost method in accordance with the International Accounting Standard 19 ("IAS 19").

Issuance of Report: Upon completion of actuarial valuation , an EOSB Report is shared with the client.

Resolution of Queries: The Insights Valuation Team assists management or external auditors in resolving all report-related queries.

Through this end-to-end approach, Insights simplifies actuarial valuations by resolving data challenges, ensuring methodological integrity, and delivering results that enhance financial transparency and stakeholder confidence.

Future Outlook of Actuarial Valuations for Companies in KSA

As companies in Saudi Arabia embrace IFRS-compliant actuarial valuations for EOSB, they will gain valuable insights into their true financial obligations. The emphasis on proactive management of EOSB liabilities not only ensures compliance but also contributes to improved financial planning and corporate governance.

Companies that excel in accurately quantifying their EOSB liabilities will not only meet regulatory expectations but also enhance their reputational standing among stakeholders by demonstrating robust financial stewardship.

Finance leaders gain clearer visibility into the company's true liabilities, enabling more accurate budgeting and balance sheet management. Audit readiness improves, when actuarial reports are methodologically sound, external auditors can more easily verify EOSB disclosures, reducing audit findings. Regulatory compliance is assured – both with IFRS and with Zakat/tax authorities. Finally, transparent accounting for EOSB boosts stakeholder confidence. In today's global capital markets, adherence to IFRS is a signal of credibility. By demonstrating that liabilities (including EOSB) are fully recognized and valued, companies reinforce their financial transparency. Investors, lenders and regulators are more likely to trust the company's balance sheet when long-term obligations are rigorously quantified.

In summary, high-quality actuarial valuations of EOSB have become indispensable in the Saudi corporate environment. They are not a mere technicality but a cornerstone of financial integrity and transparency. Compliant EOSB reporting ensures that employee obligations are not hidden off-balance-sheet, safeguarding the organization against reputational and regulatory risk.

These obligations represent substantial future cash outflows that must be accurately measured, proactively managed, and transparently communicated to stakeholders. Companies that excel in this domain will not only ensure regulatory compliance but will also gain valuable insights for strategic workforce planning, enhance their corporate governance profile, and strengthen their financial resilience.

For CFOs and compliance officers tasked with financial stewardship, investing in a robust valuation process is not merely advantageous but vital, aligning company operations with international standards and enhancing stakeholder confidence in the integrity of financial reporting.

2025

Contact Us

Please contact us for a tailored consultation and let us partner with you to enhance your financial reporting and compliance.

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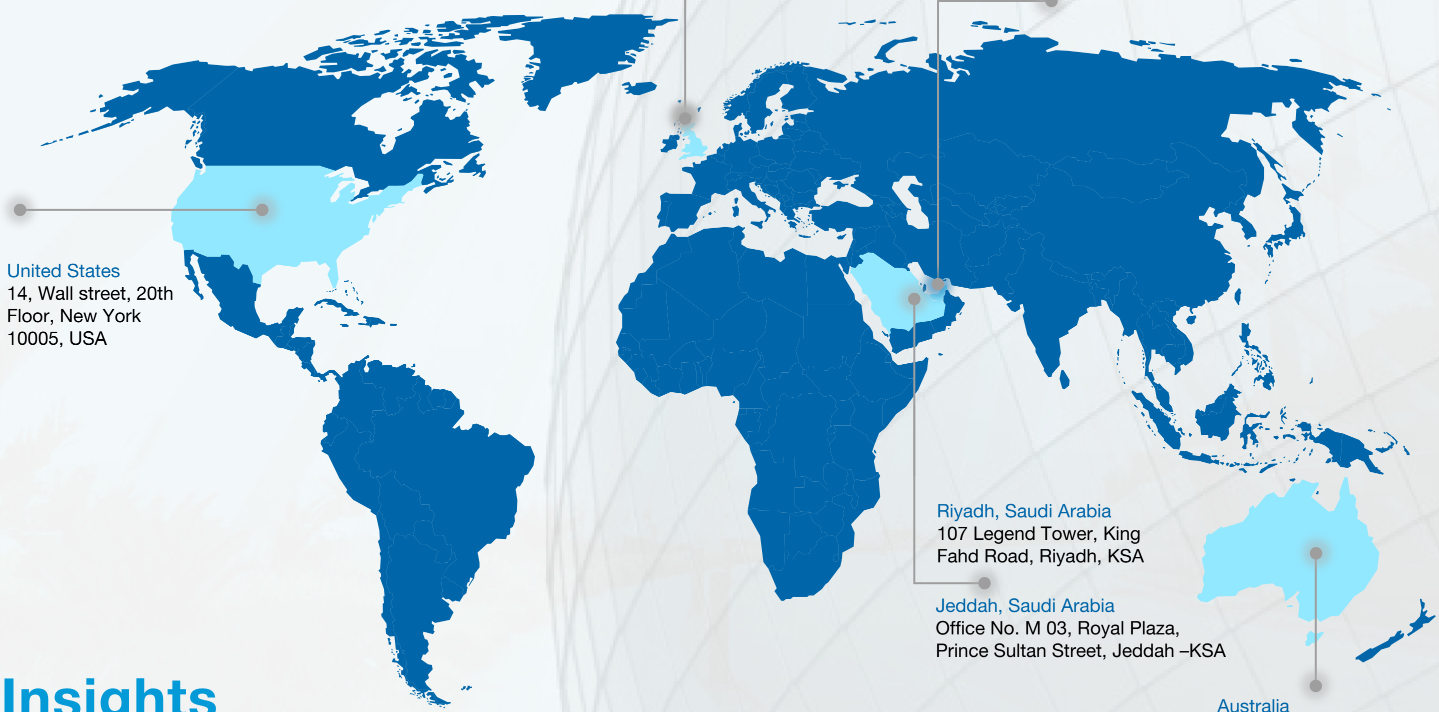

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