

The Impact of Investment Policies on the Financial Solvency of Insurance Companies in the Kingdom of Saudi Arabia

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Abstract

This study investigates the impact of investment policies on the financial solvency of insurance companies listed on the Saudi Stock Exchange. Insurance companies play a dual role in the financial system, not only by providing risk coverage but also by managing substantial investment portfolios that influence their financial stability. Despite their active investment activities, variations in solvency levels across Saudi insurers raise questions regarding the effectiveness of their investment strategies. The research seeks to examine whether investment policies particularly in terms of asset allocation, diversification, and investment horizon, significantly affect the ability of insurance firms to meet their obligations and maintain financial resilience. The study is of scientific and practical importance, as it addresses a gap in the literature concerning the Saudi insurance market and integrates financial, investment, and solvency concepts into a unified analytical framework. Empirically, it aims to measure solvency using key financial indicators and assess its relationship with different dimensions of investment policy. The findings are expected to offer actionable insights for insurance executives, risk managers, and regulators, helping to formulate balanced investment strategies that optimize returns while ensuring solvency. Moreover, the study contributes to Saudi Vision 2030 objectives by promoting a more robust and sustainable insurance sector aligned with the Kingdom's financial stability goals.

Keywords

Financial Solvency, Investment Policies, Saudi Stock Exchange, Investment Risk Management, Insurance Capital

1. Introduction

The insurance sector serves as a critical pillar in promoting economic stability and fostering sustainable development within the Kingdom of Saudi Arabia. Over the past decade, Saudi insurance companies have encountered substantial challenges stemming from market fluctuations, evolving regulatory requirements, and the increasing necessity to align investment practices with the strategic objectives outlined in Vision 2030. These dynamics have heightened concerns regarding the effectiveness of current investment policies in preserving financial solvency and reinforcing the sector's long-term resilience (Alshammari, 2020; Swiss Re Institute, 2023). Despite the strategic importance of investment decisions, there remains a limited empirical understanding of how specific investment policy components such as asset allocation, portfolio diversification, and liquidity management shape the solvency and financial robustness of Saudi insurers. This knowledge gap is particularly significant given that suboptimal investment strategies may expose insurance companies to solvency risks, regulatory breaches, and potential reputational challenges (Cummins & Venard, 2021). Accordingly, examining these relationships is essential to ensure compliance with the risk-based capital framework adopted by the Saudi Central Bank (SAMA, 2022). Therefore, the present study seeks to investigate the impact of investment policies on the financial solvency of insurance companies operating in the Kingdom of Saudi Arabia over the period 2015-2024. Specifically, it aims to analyze how investment structure, risk diversification, and liquidity management practices influence solvency margins and capital adequacy. The findings are expected to contribute to strengthening enterprise risk management practices and guiding the development of robust investment and regulatory policies that support financial stability and sustainable growth within the Saudi insurance industry (Hopkin, 2018; SAMA, 2022).

Section One: Theoretical, Conceptual, and Methodological Framework of the Study.

2. Problem Statement

Although insurance companies in Saudi Arabia invest a large part of their money in various financial instruments, the disparity in solvency levels among companies raises questions the efficiency of these investments in supporting the financial situation. Are investment policies (in terms of diversification, asset type, and time) effectively related to improved solvency? Do investment options affect company's ability to meet insurance liabilities in the short and long term?

Therefore, the main question of the study is as follows:

What is the impact of investment policies on the solvency of insurance companies listed on the Saudi Stock Exchange?

3. The Importance of the Study

3.1. Scientific and Academic Relevance

The study contributes to bridging the gap in the literature on the impact of invest-

ment policies on the solvency of insurance companies in the Saudi market, as this relationship not sufficiently studied compared to other markets.

The study provides an analytical framework that combines financial and investment concepts and solvency indicators enhance the theoretical understanding of the relationship between investment decisions and financial stability.

3.2. Practical and Professional Importance

The results of the study provide practical for insurance on the best investment policies that support solvency and enhance operational sustainability.

The study helps investment and risk managers in insurance companies develop balanced strategies that consider return and risk, enhancing the efficiency of asset allocation.

3.3. Economic and Regulatory Importance

Given the importance of insurance companies in the financial system, enhancing their solvency strengthen overall financial stability.

Supporting regulatory authorities: The study helps regulators such as the Saudi Central Bank and the Insurance Authority understand the impact of investment policies on risk and solvency, which contributes to the development of regulatory policies.

3.4. Significance in the Saudi Context

The study is in line with the objectives of Vision 2030, which seeks to develop the insurance sector to be more effective, efficient, and sustainable, the impact of local characteristics (such as the nature of the Saudi capital market and Shari'a restrictions) on the relationship between investment and solvency.

4. Discussion

4.1. The First Theme: The Importance of Investing Insurance Companies' Funds in the Kingdom of Saudi Arabia

The insurance industry is one of the most vital economic sectors in the Kingdom of Saudi Arabia, as it reflects the overall strength of the national economy and contributes directly to providing financial security for individuals and businesses. Through the protection it offers against potential losses, insurance enhances economic stability and supports sustainable development (Swiss Re Institute, 2023). Today, the importance of insurance companies is greater than ever, as they play a key role in guaranteeing financial compensation for insured losses, thereby enabling individuals and organizations to restore their financial position to its pre-loss state and continue their activities without major disruptions (Cummins & Venard, 2021) In addition to their risk-transfer function, insurance companies in Saudi Arabia have become a significant source of financing investment projects by investing insurance premium funds until the obligations become due. These investments contribute substantially to national economic growth and support the

Kingdom's broader economic and social development plans (SAMA, 2022). Consequently, the investment policy adopted by insurance companies is essential for ensuring their financial performance, operational sustainability, and the long-term protection of policyholders' interests to ensure sound governance and prudent financial management, the Saudi Central Bank (SAMA) regulates and approves the rules governing the investment of insurance and reinsurance funds. The primary regulatory framework is the *Investment Regulation for Insurance Companies*, which outlines the principles, standards, and requirements that insurance and reinsurance companies—including branches of foreign insurers must comply with when conducting investment activities in the local market. These requirements are aligned with international best practices to enhance financial stability and risk management across the sector (SAMA, 2022) *The investment activities of insurance companies must also comply with the Cooperative Insurance Companies Control Law and its Executive Regulations, as well as other regulatory frameworks issued by SAMA, such as the Risk Management Regulation, the Corporate Governance Regulation, the Insurance Market Conduct Regulation, and the Attribution Regulation. In this context, the investment policy serves as a comprehensive document that governs the company's investment operations, defines the structure and management of its investment portfolio, and ensures full adherence to the regulatory and supervisory requirements applicable in the Kingdom of Saudi Arabia* (Hopkin, 2018; SAMA, 2022).

4.2. Contents of the Investment Policy of Insurance Companies in the Kingdom

According to the regulatory framework issued by the Saudi Central Bank (SAMA), insurance companies operating in the Kingdom are required to obtain formal approval for their investment policies. These policies must incorporate several core elements to ensure prudent management of investment activities and alignment with the company's overall risk profile. First, the policy must outline the strategic investment direction established by the Board of Directors, reflecting a thorough assessment of the company's current and potential risk exposures. It should also define the roles and responsibilities of the Board, the Investment Committee, and senior management in overseeing and being accountable for all investment-related activities.

Additionally, the policy must provide comprehensive and flexible frameworks for identifying, measuring, and evaluating investment risks across different organizational levels. This includes establishing robust oversight mechanisms such as segregation of duties, authorization protocols, internal audits, and reconciliation procedures. The policy should also include appropriate methodologies for assessing investment performance, along with procedures for reporting investment-related information in a timely and accurate manner across all relevant internal levels.

Furthermore, the investment policy must stipulate clear rules regarding delegation of authority, decision-making independence for relevant staff, and the degree

of reliance on the organization's core systems. SAMA also requires that the policy be properly communicated to all employees directly or indirectly involved in investment functions, ensuring their full understanding of its content and requirements.

1) In practice, a complete investment policy typically includes the following elements:

2) A defined strategic asset allocation, representing the long-term distribution of major asset classes.

3) Specified limits on asset distribution across geographic regions, financial markets, economic sectors and currencies.

4) The adoption of either a conservative or active investment management approach, depending on each decision-making tier.

5) Clear policies regarding the prohibition or restriction of certain asset types, particularly those that are illiquid, difficult to dispose of, or not independently verifiable in terms of valuation.

6) Procedures for measuring investment performance, including the identification of benchmark indicators for each asset class.

4.3. Investment Policy Requirements for Insurance Companies in the Kingdom

The Saudi Central Bank obliges insurance companies to determine the scope of the risks they face and must assess and manage these risks effectively in accordance with the Risk Management Regulations insurance companies must ensure that their investment policies and risk control systems are appropriate to the nature, size and complexity of the company's work. Insurance companies are responsible for implementing the investment policy with the qualifications and abilities that enable them to successfully implement the policy.

In addition, insurance companies that practice various insurance branches, including the Protection and Savings Insurance Branch and the General and Health Insurance Branches, are obliged to have investment objectives and strategies commensurate with the nature of each branch, whether protection and savings or scientific and health insurance, in addition to separate records for each. The objective is to ensure that an adequate level of liquidity is provided, and the interests of policyholders are protected, ensuring that the company can meet any obligations or claims.

The capital requirements of the company and ensuring the achievement of its strategic objectives set by shareholders, in addition to the alignment with the company's business plan, as well as the investment policy, must support the principle of transparency and coordination between the company's departments, especially when preparing reports on liquidity and other operations.

5. Objectives of the Study

The objectives of the study are as follows:

1) Analysis of Investment Policy Components in Insurance Companies in the

Kingdom of Saudi Arabia.

- 2) Measuring solvency using standard financial indicators.
- 3) Studying the Relationship between Investment Policy and Financial Solvency.
- 4) Explain the relationship between the components of the investment policy (e.g., asset allocation, diversification, time horizon) and the level of solvency.
- 5) Providing recommendations to improve investment effectiveness to support the sustainability of financial solvency.

6. Research Methodology

Research Type and Approach

This study adopts a descriptive–analytical methodology, combining both descriptive and quantitative analysis to examine the impact of investment policies on the financial solvency of insurance companies.

7. Research Population and Sample

The research population consists of all insurance companies listed on the Saudi Stock Exchange. The sample includes companies with complete annual financial data available during the study period, excluding those with missing data or interrupted operations.

8. Data Sources the Study Relies on Both Secondary and Limited Primary Data, as Follows

Secondary Data:

Annual financial statements and performance reports are published on the Tadawul website.

Reports issued by the Saudi Central Bank.

Previous academic studies and relevant literature on investment policies and financial solvency.

Primary Data (optional)

Supplementary interviews or structured questionnaires directed to investment managers and risk officers in insurance companies to capture qualitative insights into investment policy practices.

9. Statistical and Analytical Tools

Descriptive analysis to summarize means, standard deviations, and variable distributions.

Statistical analysis will be conducted using SPSS and EViews software.

10. Research Limitations

The study is limited to insurance companies listed on the Saudi Stock Exchange.

The analysis period (2015-2024) may be influenced by regulatory or economic shifts in the insurance market.

Detailed investment breakdowns may not be available for all companies.

11. Validity and Reliability Validity

Ensured by aligning variable measurement with SAMA standards and by comparing findings with prior academic studies.

Reliability: Confirmed by maintaining consistent measurement indicators and methods across all study years, ensuring replicability and robustness of results.

Section Two: Literature Review and Theoretical Background.

12. Literature Review

Investment policies play a fundamental role in strengthening the financial solvency of insurance companies, particularly in markets characterized by regulatory reforms and economic volatility such as the Kingdom of Saudi Arabia. Financial solvency reflects an insurer's ability to meet long-term obligations and absorb unexpected losses, and it is strongly influenced by the efficiency of investment strategies, asset allocation decisions, and risk-return optimization practices (Harrington & Niehaus, 2020). Existing literature consistently demonstrates that well-designed investment policies reduce insolvency risk and support sustainable profitability from a theoretical standpoint, insurance companies rely substantially on investment income to complement underwriting results, making portfolio decisions a key determinant of overall solvency. Effective investment policies ensure appropriate diversification, liquidity management, and alignment with regulatory capital requirements (Dorfman & Cather, 2022). Empirical studies indicate that insurers adopting conservative yet diversified asset allocations, balancing equities, fixed-income securities, and real estate tend to maintain more stable solvency ratios over time (Lee & Lee, 2019). In contrast, excessive concentration in high-risk assets increases volatility and weakens capital adequacy. Within the Saudi insurance market, regulatory frameworks issued by the Saudi Central Bank (SAMA) have further strengthened solvency requirements through the implementation of risk-based capital standards. These regulations directly influence investment policy design by restricting exposure to high-risk assets and ensuring adequate liquidity buffers (Saudi Central Bank (SAMA), 2023). Studies focusing on emerging markets confirm that strong regulatory oversight promotes disciplined investment behavior, leading to enhanced solvency margins and a reduced probability of default (Ahmed & Elsayed, 2021). Research in Gulf and MENA markets also highlights the importance of investment portfolio quality as a predictor of solvency performance. Insurers with higher allocations to government bonds and Sharia-compliant fixed-income instruments typically exhibit stronger solvency ratios due to lower default risk and stable income streams (Al-Shammari & Al-Sultan, 2020). Furthermore, investment governance such as establishing investment committees, implementing structured risk-monitoring practices, and integrating enterprise risk management (ERM) contributes significantly to financial

resilience and long-term solvency (Beasley et al., 2021). Overall, the reviewed literature confirms that investment policies function not merely as financial decisions but as strategic determinants of solvency. In Saudi Arabia, aligning investment strategies with regulatory requirements, market conditions, and risk-management frameworks is essential for ensuring financial strength and protecting policyholders. This establishes a clear link between prudent investment practices and enhanced financial solvency in the insurance sector.

Research Gap

Despite the growing body of literature on the relationship between investment policies and the financial solvency of insurance companies, significant gaps remain, particularly in the context of the Saudi Arabian insurance market. Most existing studies focus on developed markets or GCC countries collectively, often overlooking country-specific regulatory, economic, and market characteristics that influence investment decisions (Ahmed & Elsayed, 2021; Al-Shammari & Al-Sultan, 2020). For instance, while the importance of asset diversification and risk management in maintaining solvency has been well-documented globally (Harrington & Niehaus, 2020), few studies have empirically examined how Saudi-specific investment regulations issued by the Saudi Central Bank (SAMA) shape solvency outcomes. Moreover, prior research often emphasizes general portfolio strategies or solvency ratios without analyzing the effectiveness of investment governance mechanisms, such as the role of investment committees, Sharia-compliant investment practices, and risk monitoring frameworks, in enhancing financial stability (Beasley et al., 2021). Additionally, there is limited empirical evidence on the dynamic interaction between investment policies and firm-specific factors, such as size, market share, and product mix, in determining solvency levels in the Saudi insurance sector.

Therefore, this study aims to fill these gaps by investigating the specific impact of investment policies on the financial solvency of Saudi insurance companies, considering regulatory constraints, investment governance, and firm-level characteristics. Addressing this gap will provide valuable insights for policymakers, regulators, and industry practitioners seeking to strengthen the resilience of the Saudi insurance market.

Section Three: Theoretical Framework of the Study.

13. Sources of Financing the Investments of Insurance Companies in the Kingdom of Saudi Arabia

Investment operations within insurance companies are significant due to the substantial funds accumulated by these companies, with their profitability largely dependent on the effective investment of these resources. Proper planning of investment policies for property and liability insurance in direct insurance companies requires a thorough study and analysis of the sources of financing for these investments, as well as the mechanisms through which these funds are collected. The effectiveness of investment policies is influenced at all stages, including planning

and setting goals, investment analysis, and selection, evaluation, and review processes, due to the distinctive characteristics of fund formation in insurance companies (Al-Shanti, 2020).

The sources of financing for insurance companies vary according to the type of insurance offered and the nature of the insurance coverage. Investments constitute a critical component of insurance companies' operations, as they deploy accumulated premiums to acquire financial and real estate assets to generate returns. These returns reinforce the company's financial position and ensure the ability to meet future obligations. Investment types typically include:

- 1) Fixed-income assets, such as bonds and deposits;
- 2) Local and international stocks;
- 3) Real estate assets.

Alternative investments, including private investment funds (Insurance Authority, 2021).

The structure of investment policies depends on each company's strategic objectives, risk tolerance, market conditions, and regulatory requirements (Insurance Authority, 2021). Insurance companies amass significant funds from multiple sources, including shareholders' equity, capital reserves, and policyholders' funds, which collectively form a balance requiring investment Shareholders' Funds and Rights: These consist of paid-up capital and capital reserves derived from profits, intended to strengthen the company's financial position and provide a safety margin against unforeseen events, such as disasters. Despite their importance, these funds typically represent a relatively small portion of the total investment capital (Al-Shanti, 2020).

Policyholders' Funds: These funds arise from collected insurance premiums and are categorized into:

Takaful Policyholders' Funds: Also referred to as technical allocations, these funds are critical for Takaful insurance operations. They constitute a long-term source due to the extended duration of Takaful policies. The funds grow annually as new policies are issued, in addition to provisions for claims settlement and other allocations (Al-Shanti, 2020).

General Insurance Funds: These include:

Allowance for Applicable Risks: Amounts withheld from prepaid general insurance premiums to cover future risks. Since policies are issued at various times throughout the fiscal year, the premiums may extend beyond the current year. Although typically considered short-term, these funds accumulate over time and increasingly serve as long-term investment resources.

Compensation under Adjustment: Funds retained for claims that have arisen but not yet been settled. This provision is necessary due to the time lag between risk occurrence and claim settlement, ensuring policyholders' rights are protected. In life insurance, it is termed allowance for claims under payment, while in general insurance, it is called allowance for compensation under settlement (Al-Shanti, 2020; Insurance Authority, 2021).

In conclusion, a comprehensive understanding of these financing sources and their characteristics is essential for developing rational and effective investment policies for insurance companies operating in Saudi Arabia.

Section Four: Practical Analysis of Data, Results, and Recommendations.

14. The Strategic Importance of Investing in Insurance Companies in Saudi Arabia Investing in Insurance Companies in the Kingdom of Saudi Arabia (KSA)

Holds significant strategic importance due to a combination of economic, regulatory, and social factors that provide benefits for both investors and society at large. Several key aspects highlight this importance:

1) Supporting Financial Stability and Economic Growth Insurance services act as a financial safety net, protecting individuals and businesses from unforeseen risks such as illnesses, accidents, or operational disruptions. This risk mitigation enhances economic stability and stimulates investment and growth (Alghamdi, 2023). The insurance sector in KSA has experienced substantial growth, with a compound annual growth rate (CAGR) of approximately 7.8% in recent years, reaching a market share of 26.9% by 2024 (Saudi Central Bank, 2024).

2) Alignment with Saudi Vision 2030 and Economic Diversification The insurance sector plays a critical role in supporting Vision 2030, which seeks to diversify the economy and increase the contribution of the insurance sector to non-oil GDP from 2.4% in 2025 to 4.3% by 2030 (Vision 2030, 2021). Furthermore, projected sector revenues are expected to reach around SAR 100 billion by 2030, representing an increase of over 60% compared to current levels (Al-Harbi, 2024). These developments present attractive investment opportunities for both domestic and international investors.

3) Advanced Regulatory and Technical Framework The establishment of the Saudi Insurance Authority and the implementation of international accounting standards such as IFRS 17 and IFRS 9 have significantly improved governance, transparency, and operational performance within the sector (Insurance Authority, 2024). As a result, net profits before Zakat and tax increased by 25.9%, and total assets grew by 20%, reaching approximately SAR 84.9 billion in Q3 2024. Moreover, digital transformation initiatives, including Insurtech platforms such as Tamini and B-Care, enhance customer experience and operational efficiency. The adoption of artificial intelligence tools further supports fraud detection and claims processing (Alqahtani, 2024).

4) Benefiting from a High-Interest Investment Environment Insurance companies in KSA generate substantial investment income from customer premiums. With the recent rise in interest rates, investment profits reached SAR 685.5 million, accounting for 51% of the sector's net profits in Q2 2024 (Saudi Insurance Market Report, 2024). Leading companies such as Tawuniya, which recorded an 87% increase in profits, and Bupa Arabia, which achieved significant gains, demonstrate the strong performance and resilience of the sector as an investment

opportunity (Alshammari, 2024).

In summary, investing in Saudi insurance companies offers a combination of financial security, alignment with national economic objectives, advanced regulatory compliance, and high-yield investment potential, making it a strategically attractive sector for investors.

Fifth: Diversifying the investment portfolio

Investment diversification in the insurance sector contributes to risk diversification by allocating assets across different sectors a common investment technique to reduce return volatility and achieve long-term stability.

Table 1 shows the total premiums of the Saudi insurance market, the growth rate and the depth of insurance (the depth of insurance is the ratio of the contribution of the total insurance premiums to GDP).

Table 1. The total premiums, growth rate.

Sunnah	Total market installments in Saudi Riyals	Growth Rate %	Depth of Insurance
2015	36496.3	19.70%	1.49%
2016	36.855	1%	1.54%
2017	36503.20	-1.00%	1.42%
2018	35014.50	-4.10%	1.20%
2019	37890.50	8.20%	1.28%
2020	38778.70	2.30%	1.48%
2021	42030.50	8.40%	1.34%
2022	53356.20	26.90%	1.28%
2023	65459.1	22.70%	1.64%
2024	76141.70	16.32%	1.87%

Total Premiums, Growth Rate, and Insurance Depth in the Saudi Insurance Market (2015-2024). **Table 1** presents the total premiums of the Saudi insurance market over the period from 2015 to 2024, along with the annual growth rate and the depth of insurance. The depth of insurance represents the ratio of total insurance premiums to the gross domestic product (GDP), which reflects the sector's contribution to the national economy.

From the data, it is observed that the total premiums have shown a steady upward trend over the ten-year period, increasing from SAR 36.5 billion in 2015 to approximately SAR 76.1 billion in 2024. This significant rise demonstrates the continuous expansion of the Saudi insurance market, supported by regulatory reforms, economic diversification policies, and improved market awareness.

The growth rate fluctuated across the years, with noticeable declines in 2017 (-1.0%) and 2018 (-4.1%), reflecting temporary market contractions possibly due to economic adjustments and reduced consumer spending. However, the sector recovered strongly afterward, particularly in 2022 (26.9%) and 2023 (22.7%), in-

dicating renewed momentum and higher demand for insurance products, likely driven by Vision 2030 initiatives and regulatory modernization.

Regarding the depth of insurance, it remained relatively stable around 1.2% - 1.5% for most of the period, before increasing to 1.64% in 2023 and 1.87% in 2024. This improvement suggests that insurance penetration in the Saudi economy is gradually deepening, reflecting the growing importance of the insurance sector in supporting financial stability and risk management in the Kingdom.

Overall, the table highlights a positive long-term growth trajectory for the Saudi insurance industry, characterized by expanding premium volumes and a rising contribution to GDP, which aligns with the country's broader economic transformation objectives (Figure 1).

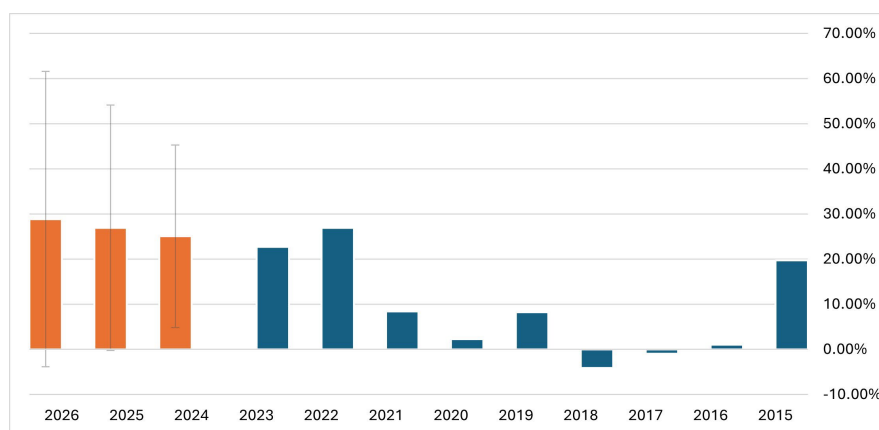


Figure 1. Graph of the Saudi insurance market, the growth rate and the depth of insurance (the depth of insurance is the ratio of the contribution of the total insurance premiums to (GDP) 2015-2025).

Table 2 shows the investment returns of insurance companies in the Kingdom of Saudi Arabia.

Table 2. The investment returns of insurance companies in the Kingdom of Saudi Arabia.

Sunnah	Total Market Premiums	Investments	Return on investment	Growth Rate %
2015	36496.3	12,240,926	287	11.20%
2016	36.855	13,761,025	278	13.70%
2017	36503.20	15,404,966	688	15.40%
2018	35014.50	15,296,215	295	15.20%
2019	37890.50	16,207,573	1.31	16.20%
2020	38778.70	17,459,629	1.32	17.40%
2021	42030.50	18,096,204	1.16	18%
2022	53356.20	19,694,651	1.1	19.60%
2023	65459.1	21031.45	2.56	21%
2024	76141.70	26259.40	3.7	25.20%

The investment returns of insurance companies operating in the Kingdom of Saudi Arabia over the period 2015-2024. The data, obtained from the Annual Reports of the Saudi Insurance Authority, reflect the overall performance of the insurance sector in terms of total market premiums, total investments, return on investment (ROI), and annual growth rates.

Overall, the figures show a steady upward trend in both total market premiums and investment volumes across the years. Total premiums increased from SAR 36.5 billion in 2015 to approximately SAR 76.1 billion in 2024, indicating significant expansion in the insurance market. Similarly, total investments grew from SAR 12.2 million in 2015 to SAR 26.3 million in 2024, reflecting a consistent rise in investment activity and portfolio diversification among Saudi insurers.

The return on investment (ROI) fluctuated slightly across the years, ranging between 1.10% and 3.7%. These variations may be attributed to changes in market conditions, interest rates, and investment strategies within the insurance sector. Despite some volatility in ROI, the growth rate of investments showed continuous improvement, increasing from 11.2% in 2015 to 25.2% in 2024, suggesting growing confidence and efficiency in the financial performance of insurers.

In summary, **Table 2** demonstrates that the Saudi insurance sector has achieved sustained growth in premiums, investment volume, and overall financial performance over the past decade. The results highlight the positive relationship between investment management and market expansion, which plays a crucial role in enhancing the financial solvency and stability of insurance companies in the Kingdom (**Figure 2**).

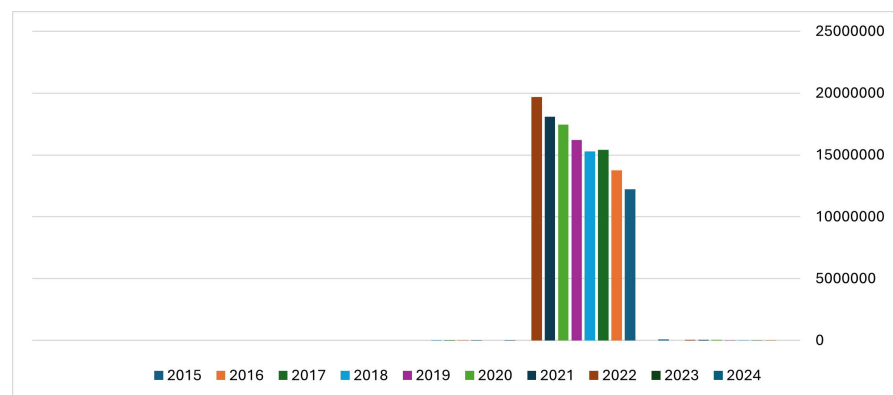


Figure 2. Graph of the investment returns of insurance companies operating in the Kingdom of Saudi Arabia over the period 2015-2024.

15. Third Theme: Financial Solvency and Investment in Insurance Companies

The Concept of Financial Solvency for Insurance Companies

Solvency is an insurance company's ability to meet its obligations to policyholders and beneficiaries in a timely manner, even under difficult economic conditions. It is a key indicator of financial stability and viability.

15.1. The Importance of Solvency in Insurance Companies

The interest in financial solvency by the insurance supervisory and supervisory bodies and the management of the company itself is because most of the insurance company's funds belong to policyholders, and this category cannot judge the financial position of the insurance company, regardless of the financial facts published about the company each year. Extremely important to parties

The following:

1) Policyholders are interested in future ability to fulfill the undertaking in the policy.

2) Investors or shareholders interested in keeping the shares at their value or achieving an increase in this value in addition to the disbursement of the coupons they promised.

3) Employees in the company who are interested in continuing to work while receiving their salaries, and these two workers, one or both workers if the insurance company goes bankrupt or faces financial difficulties.

4) The senior management of the company is concerned with the financial position of the insurance company, affects its reputation and future job opportunities with this company or other companies.

5) Reinsurance Reinsurers Face Difficulties in Collecting Reinsurance Premiums and Their Sponsorship Intervenes During Claims Settlement.

6) Supervisory bodies are responsible for predicting the bankruptcy of an insurance company operating in the market.

From the above, the importance of financial solvency lies in the ability of the insurance company to meet its obligations within the specified times, and the supervisory and supervisory bodies responsible for protecting the rights of insurance policyholders are purified based on their inability to divide the financial position of the insurance company whose policies they hold.

Solvency Rules in the Insurance Industry:

Insurance companies are based on three basic rules:

1) Rules for the preparation and evaluation of technical allocations

Technical (technical) provisions in insurance companies the type of allowance that is related to the nature of insurance operations and the technical characteristics that distinguish them therefore the composition of this type of allowance is limited to companies that practice insurance and reinsurance operations and no other companies, which are the financial amounts that are withheld from the revenues at the end of the corresponding cycle, losses and future liabilities related to the pure activity of the company, and psychological provisions are considered one of the most important and sensitive elements of liability. It is evaluated by insurance and mathematicians (actuaries) according to specific methods, as it requires a degree. There is a great deal of numbness and accuracy in its calculation, as it is directed to fulfill the obligations of the insured company on the one hand, so that its value is not overestimated in an effort by the insured to evade tax.

2) The Rule of Parity

The rule of parity requires that technical allocations at any given moment be represented by equivalent assets the value of the assets must be at least equal to the value of these provisions.

Compliance with this basis when the applicable regulation hears foreign currency investment, where the funds of the insurance companies representing the technical provisions released seek to be the same as the currency of these provisions, and this is the aim of protecting the insured as well as the insured from the risks of exchange rate fluctuations.

The local rule requires some legislation that the obligations of the insured must be represented by the assets of concentration in the same place as these obligations.

15.2. Rules for Solvency Margin Composition

The solvency margin maintained by insurers is the main measure of their solvency, and the International Association of Insurance Supervisors (AIS) has named it additional capital, and defined it as a “surplus of assets over liabilities calculates general accounting systems or private supervisory rules”.

Risks that threaten the solvency of insurance companies

The risk of solvency represents the inability to cover the losses resulting from all kinds of risks that threaten financial companies, which are represented credit risks, quote risks, interest rate risks, market risks, exchange rate risks and operational risks.

1) Underwriting risk is the risk that occurs when the average value of the actual claims differs from the expected value when selling insurance policies insurance companies seek to reduce the risk of underwriting by selling a very large number of insurance policies and providing different types of insurance coverage in different geographical areas.

2) Investment risks: is also called asset risk, because it reflects the investment portfolio in the insurance company, so the principles that must be available in insurance companies, which are represented in guarantee, profitability, liquidity, and diversification, must be considered when determining the various investment policies.

- **Liquidity risks** are risks related to the company’s inability to pay its obligations immediately and defaults in paying claims, in addition to the risks related to the loss resulting from the liquidation of assets, as well as the failure of the debtor parties to pay their obligations to the company on time.

- **Information technology risks,** including the possibility of errors, slowdowns or interruptions in the company’s business due to problems caused by the company’s technical information systems, as well as the risk of legal prosecution resulting from the illegal use of software.

- **Product development risks** are risks related to the introduction of a new insurance product or changes to existing insurance products aimed at customer satisfaction and making the product more marketable in a competitive environment,

result from the lack of insurance awareness among the public, inappropriate insurance prices, sales and marketing methods.

Governance risks are related to the relationships within the company, its management, the distribution of responsibilities and tasks among the various stakeholders in the company, and the risks of non-compliance, which result from non-compliance with the legislation and government decisions regulating the work of the insurance market, in addition to non-compliance with the company's internal laws and regulations.

Reputational risks are those that determine the company's ability to establish and consolidate its relationships with the insured and other relevant parties, or its ability to provide new services results from neglecting the role of public relations and thoughtful marketing of the company's products, criticizing and disseminating negative news against the company by competitors in the media, and the absence of an appropriate media and media plan.

- **Loan risks:** It is represented in the insurer's inability to recover his dues from the entities with which he deals, whether directly from the insured installment debtors (the insured) or through intermediaries or reinsurers, is represented in the insured's inability to recover his money or its returns invested in securities on their maturity dates.

The inability of the reinsurer to pay his obligations is considered one of the most important opportunity risks in general insurance, as this would create significant financial difficulties for the direct insurer.

- **Risk of reinsurance:** This risk relates to the inadequacy of the reinsurance program, which can lead to significant financial difficulties. of the company, so it seeks to study the extent of the insurance company's need for protection and coverage through reinsurance and to inform the appropriate type of insurance with the renewal of.

Terms of the Agreement.

- **The risk of termination of the contract** is related to the cancellation of the contract by the policyholder before its maturity date, so that the insurer is confused to pay a certain amount of money that bears the policy, is not of great importance in general insurance the short duration of its contracts, while it is of great importance in takaful insurance

The relationship between the size of investment and the solvency ratio of insurance companies

1) Potential positive relationship

Increasing the volume of investment in safe and well-yielding assets increases investment profits, which enhances capital and shareholder equity.

Capital appreciation improves solvency ratio because it increases the company's ability to cover its future liabilities towards policyholders for example, if a company invests in government bonds with a high credit rating, a fixed return enhances technical reserves

2) Possible negative relationship

If the investment volume increases but is directed to riskier assets (such as volatile stocks or unstable real estate), the volatility of these assets can lead to capital losses that reduce shareholder equity, leading to a lower solvency ratio.

Increased borrowed investments may also increase liquidity risk and put pressure on solvency.

This relationship is affected by several internal and external factors, including Regulatory Framework: Requirements and Requirements for Capital and Precautions Capital Market Conditions such as Fluctuations in Stock and Bond Prices Investment Risk Management, including the Use of Hedging Tools and Control Measures Investment Portfolio Structure: Distribution of Assets among Different Types Financial and Administrative Performance of the Company: Management's Ability to Make Sound Investment Decisions

16. Financial Solvency Measurement Indicators for Insurance Companies in the Kingdom of Saudi Arabia, in Accordance with the Regulations of the Saudi Central Bank

1) Capital Requirements and Statutory Incentives

Minimum paid-up capital: Under the new law on granting license insurance companies (2021), the bank raised the minimum capital to 300 million riyals for both insurance and reinsurance companies.

The statutory deposit is deposited at 10% of the capital and be amended to 15% based on SAMA assessment.

2) Solvency Margin

The solvency margin is calculated according to one of the following methods.

Minimum Capital Requirement

Premium Solvency Margin according to the written premium classification, after deducting reinsurance, and taxed by specific transactions.

The Claims Solvency Margin is calculated from the average of claims over three years, after deducting reinsurance and by certain transactions.

3) Protection & Saving Business

The solvency margin is calculated using 4% of the technical reserves 0.3% of the insured capital in individual policies (after deducting reinsurance) provided that the reinsurance does not exceed 50% 0.1% of the insured capital in collective policies under the same conditions

4) Correction and disclosure in case of low solvency if the solvency margin reaches between 75% and 100% of the required, it must be corrected within a fiscal quarter if it ranges between 50% and 75%, an organized correction plan must be developed, and if the situation lasts for two financial weeks, a plan is submitted to the Central Bank if it decreases to 25% to 50%, urgent measures are taken such as capital increase, installment adjustments, cost reduction, suspension of subscription, or liquidation of assets if the margin falls below 25%, SAMA may appoint an advisor or issue a decision to suspend the company's operations and withdraw its

authorization.

5) Reports, Actuarial Examination and Tests A periodic solvency and capital report shall be prepared by the designated actuary, which shall include:

Historical and Expected Data (Profit Statements, Budget, Expected Solvency Ratio) The Authority requires the submission of the report and the attached template annually, and the recommendations must be presented to the Board of Directors within two months, and the minutes of the meeting must be submitted to the Central Bank.

6) Additional indicators related to solvency and sustainability

internal retention rate of at least 30% of total premiums (retention in the local market), and 30% of reinsurance must be within Saudi Arabia unless approved by the Central Bank and consultation with the Saudi Central Bank on the appropriate level of reinsurance companies (e.g. Saudi Reinsurance, which has maintained a very high solvency margin according to its annual report).

17. The Role of Regulators in Enhancing the Financial Solvency of Insurance Companies through Investment

Setting Legislative and Regulatory Frameworks Determining Financial Solvency Ratios the Saudi Arabian Monetary Authority (SAMA prior to the transfer of supervision to the Insurance Authority including calculating the available capital against the required capital, which ensures the company's ability to meet its obligations.

1) Issuance of investment instructions: Obliging companies to adhere to investment policies that preserve capital and reduce exposure to high risks.

Updating Regulations: Developing investment regulations in line with economic changes and capital markets.

2) Diversifying investment portfolios: Obliging companies not to rely on a single class of assets but to distribute investments among debt instruments, stocks, real estate, and sukuk.

3) Encourage investment in low-risk instruments such as Saudi government bonds, to ensure high liquidity and capital security.

4) Investment Risk Management Imposes risk management policies that include:

Investment concentration limits (sector, entity or financial instrument).

Periodic evaluation of the investment portfolio according to fair value criteria.

18. Stress Testing to Measure a Company's Ability to Withstand Market Fluctuations

1) Encourage stable long-term investments and provide incentives to companies that invest in national strategic projects (infrastructure, renewable energy, real estate projects).

2) Support investment in Shariah-compliant instruments, which often carry less risk and are in line with the local regulatory environment.

- 3) Continuous monitoring and periodic reports obliging companies to submit quarterly and annual reports on investment performance and the extent of its impact on financial solvency.
- 4) Conducting field and office inspections to ensure compliance with the regulations.
- 5) Early intervention in case of signs of decline in financial solvency.
- 6) Compliance with international standards Applying Solvency II (European) standards or its local equivalent to ensure that capital requirements are compatible with the size and type of risk.
- 7) Adopt corporate governance principles to ensure that investment decisions are independently reviewed and in the interest of policyholders.
- 8) Awareness and training: Organizing workshops and training courses for insurance companies to enhance their understanding of best investment practices.
- 9) Publish analytical reports on market trends and appropriate investment instruments.

19. Conclusion and Finding

This study examines the impact of investment policies on the financial solvency of insurance companies operating in the Kingdom of Saudi Arabia during the period 2015-2024. The research aims to explore how asset allocation, portfolio diversification, investment horizon, and liquidity management influence solvency indicators such as the solvency margin ratio, capital adequacy ratio, and return on equity. Using panel data analysis for a sample of Saudi-listed insurance firms, the study finds a statistically significant relationship between investment policy decisions and financial solvency. Companies with well-diversified investment portfolios and a balanced allocation between long-term and short-term assets demonstrate higher solvency margins and greater financial resilience. Conversely, excessive concentration in high-risk or illiquid assets tends to weaken solvency levels and expose firms to potential regulatory and operational risks.

The findings highlight the critical role of strategic investment management in maintaining solvency and ensuring compliance with the solvency and risk-based capital requirements issued by the Saudi Central Bank (SAMA). From a policy perspective, the results underscore the need for insurance companies to adopt prudent investment strategies that balance profitability with regulatory solvency standards. The study contributes to the growing body of literature on enterprise risk management and investment efficiency in emerging markets, particularly within the Saudi insurance industry. In conclusion, the study confirms that effective investment policies are not only a determinant of profitability but also a cornerstone of financial stability and sustainability. Strengthening investment governance, enhancing portfolio diversification, and improving liquidity management can substantially improve the solvency and long-term viability of Saudi insurance companies, supporting the broader objectives of Vision 2030 in building a robust and resilient financial sector.

20. Recommendations

Based on the findings of this study, several recommendations can be proposed to enhance the effectiveness of investment policies and strengthen the financial solvency of insurance companies operating in the Kingdom of Saudi Arabia.

1) Enhance Investment Diversification:

Insurance companies should adopt a balanced investment strategy that diversifies assets across different sectors and instruments such as equities, bonds, real estate, and deposits to minimize portfolio risk and stabilize returns over time.

2) Align Investment Policies with Regulatory Guidelines

Companies should ensure that their investment strategies comply with the Saudi Central Bank's (SAMA) solvency and investment regulations, maintaining an optimal balance between profitability and prudential risk limits.

3) Develop Advanced Risk Management Frameworks

The implementation of comprehensive Enterprise Risk Management (ERM) systems can help insurance firms identify, assess, and control risks arising from investment activities, thus improving.

4) Focus on Long-Term Investment Strategies

Shifting focus from short-term speculative investments toward long-term, value-based assets can enhance sustainable financial strength and improve solvency ratios.

5) Enhance Investment Performance Monitoring

Companies should establish clear performance indicators for investment portfolios, supported by regular stress testing and scenario analysis to assess the potential impact of market volatility.

6) Capacity Building and Training

Continuous professional development for investment and risk management personnel is essential. Specialized training programs on financial analysis, asset allocation, and solvency management should be encouraged.

7) Promote Transparency and Disclosure

Enhancing the quality and frequency of disclosures related to investment policies and solvency margins would increase market confidence and allow regulators and investors to assess financial soundness effectively.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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