Public Disclosure ERGO Insurance Pte Ltd

1. ERGO's company profile, nature of its business, key products, and objectives

ERGO Insurance Pte. Ltd. is a registered general insurer regulated by the Monetary Authority of Singapore. ERGO Insurance is a wholly owned Singapore subsidiary of ERGO Group AG, one of the major insurance groups in Germany and Europe, and the primary insurance arm of Munich Re, one of the leading reinsurers and risk carriers worldwide.

ERGO offers a comprehensive range of

a) commercial insurance products for commercial motor, work injury compensation, bonds, engineering, property, health, corporate personal accident, financial lines and marine; and

b) personal insurance products from private motor and personal accident and Domestic Maid Insurance.

ERGO operates in the Singapore market in a highly competitive environment. ERGO's strategy is to balance the portfolio and achieve long-term profitability. Every year ERGO updates the business plan and actions to be in line with the growth and business mix strategy.

The strategies are communicated to underwriters and monitored on a regular basis. Risk control measures such as implementation of underwriting guidelines and underwriting authorities setting out the limit that any one underwriter can write are in place to ensure appropriate risk selection within the portfolio of business to be underwritten.

2. Key features of ERGO's corporate governance framework and management controls

ERGO Insurance is led and controlled by a Board of Directors that is collectively responsible for the long-term success of the Company. The Board of Directors oversees the Company's risk management policies and processes.

The Board has full access to and co-operation of the Management. The internal and external auditors have unrestricted access to the Board of Directors.

ERGO's Board of Management reports to the Board of Directors on strategies and businesses of the Company, including any updates to its policies from time to time.

3. ERGO's enterprise risk management framework

The Board of Directors is responsible for establishing a consistent and solid risk management framework. The Board is assisted by the Risk Management Committee.

ERGO's risk management framework includes the Risk Strategy, Risk Management Policy and Own Risk and Solvency Assessment (ORSA). The Risk Strategy establishes which risks ERGO will be exposed to and defines the risk tolerances through suitable risk criteria, e.g. limits and triggers. The Risk Management Policy documents the roles & responsibilities and processes to identify, measure, manage and monitor risks. ERGO performs the ORSA every year to assess the adequacy of our risk management and our current and projected future solvency positions.

ERGO has implemented the "three lines of defence" concept and has in place segregation of duties between the first line of defence (risk-taking business units), second line of defence (Risk Management and Compliance, providing independent oversight) and third line of defence (Internal Audit, providing quality assurance).

ERGO has an asset-liability team which comprises of relevant functions. The asset-liability team has quarterly meetings and discusses Strategic Asset Allocation and Asset-Liability Management issues and proposes investment solutions to the Company's management.

ERGO's investment assets have weighted average duration matched to the duration of our liabilities, to the extent practicable.

4. Insurance risk exposure

4.1. Property insurance

Product features

ERGO writes fire and consequential loss insurance, which indemnifies, subject to certain limits or excesses (if any), the policyholder against loss or damage to buildings and contents arising from an insured peril and loss of profits from business interruption arising from fire and related damage.

Events giving rise to claims for damage to buildings or contents usually occur fortuitously and causes are easily determinable.

Managing risks

The key risks associated with these products are underwriting risk and concentration of risks.

The risk on any policy will vary according to many factors such as the occupation, the construction and the age of the property. For residential property, the risk exposure is minimal. However, for commercial and industrial properties, the location, the type of business and the fire protection measures are important considerations.

These risks are managed primarily through the pricing process and reinsurance protection. Premium charged has to commensurate with the level of risk exposure. ERGO uses strict underwriting criteria to ensure that the risk of losses is within the Company's risk tolerance level. ERGO also takes measures to ensure that the concentration of risks from a particular location is within acceptable limits.

4.2. Engineering related insurances

Product features

ERGO writes engineering related insurances such as contractors' all risks, work injury compensation and performance bond.

For contractors' all risks, the cover is in respect of all risks of loss or damage to the contract works and there is a section on third party liability cover. Under this section, compensation is payable for loss or damage, or injury suffered by third parties arising from the works. The main exposure is the risk of collapse for construction works and damage to underground pipes and cables for excavation works.

Under the liability section, bodily injury claims are typically the largest source of uncertainty in estimating the claim liabilities. These uncertainties include the reporting lag, the number of parties involved in the claims, whether the insured event is over multiple time periods and the potential amount of claim.

Employers' liability is payable for employees' personal injury by accident or disease caused arising out of and in the course of their employment. The main exposure is concentration of risks where an event could involve a number of employees and also from exaggerated common law claims.

The work injury compensation insurance is mandatory under the work injury compensation act where compensation is payable for death of or injury to employees arising from their employment. The main exposure is concentration of risks where an event could involve more than one employee and also from exaggerated common law claims.

The event giving rise to a claim under performance bond is usually attributed to the contractor's failure to perform their obligations under the contract which could be due to insolvency of the contractor or disputes between the principal and contractor. Claims can be protracted when dispute is pursued through legal action.

Managing risks

The key risks associated with engineering related insurances relate to underwriting risks, the extent of concentration of risks and the potential of third parties to exaggerate or invent losses. For performance bond, the key risk is the ability of the contractor to complete the contract as well as the general economic environment, which may affect the contractor's ability to perform its obligations.

Risks arising from these related classes are managed through risk survey, risk selection, applying appropriate limits and terms and by the appropriate reinsurance protection. In addition, ERGO monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that risks, which meet the Company's criteria for profitability are underwritten.

4.3. Marine cargo

Product features

ERGO writes cargo insurance covering loss or damage to cargo whilst in transit from the place of shipment to the final destination named in the policy.

Managing risks

Key risks associated with this product are underwriting risks and competition risks. The risk factors to be considered related to underwriting are types of cargo, details of packing, means of conveyance, the voyage and type of cover. These risks are managed primarily through the pricing process and reinsurance.

4.4. Motor insurance

Product features

ERGO writes motor insurance in Singapore. This comprises both the property and the liability covers, and therefore, includes both shorter and longer tail coverage. The faster settlements are in respect of own damage claims and third-party property damage claims, subject to any limits or excesses. Claims that are more difficult to estimate and take a longer period to finalise are the third-party bodily injury cases.

Managing risks

For motor insurance, the risk factors to be considered include age of driver, driving experience, occupation, make and type of vehicle. These risks are managed through the pricing process. ERGO monitors and reacts to changes in the trends of injury awards and also the market environment in which it operates. ERGO has structured a treaty program to limit its exposure to losses.

4.5. Miscellaneous classes

Product features

ERGO writes personal accident insurance, travel accident insurance, theft insurance, money insurance etc under its miscellaneous classes. Under personal accident insurance, benefits are paid for death or permanent disablement from accidents. For theft and money insurance, the coverage is in respect of loss or damage to property and loss of money, respectively.

Managing risks

Key risks associated with these products are underwriting risks and concentration risks. The risk factors to be considered relating to underwriting of personal accident insurance are occupation, age of policyholder and the benefits selected. For theft insurance, the type of property insured, location, its value and safety measures are key risks factors. As for money insurance, the key risk factors are the business of the insured, the limit insured and the level of safety precautions.

These risks are managed primarily through the pricing process and reinsurance protection. Premium charged have to commensurate with the level of risk exposure. ERGO also takes measure to ensure that the concentration of risk under group personal accident insurance is within acceptable limits.

4.6. Concentration of insurance risk

A key aspect of the insurance risks faced by ERGO is the extent of concentration of insurance risks. This may arise from the accumulation of risks within a number of individual classes or contracts.

Concentration of risk can arise in both high-severity, low-frequency events, such as natural disasters and from a single event affecting a number of individual classes or contracts.

ERGO's key methods in managing these risks are as follows:

Firstly, the risk is managed through proper underwriting. Underwriters practice prudent selection of risks and ensure that premiums commensurate with the risks assumed.

Secondly, the risk is managed through the use of reinsurance. ERGO purchases both excess of loss covers as well as proportional treaty arrangements with reputable reinsurers which provides protection on the insurance business written by ERGO above a certain net retention of risk. The costs and benefits associated with the reinsurance programme is being reviewed periodically.

ERGO sets out the total aggregate exposure that it is prepared to accept in relation to concentration of risks based on the guidelines given by The Monetary Authority of Singapore under the Risk-Based Capital Framework. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which ERGO is exposed.

5. Technical provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Methodology

<u>Triangulation (PCL, ICL, ADD)</u>

The loss development factors are selected after considering various average loss development factors for each development year.

The Company excludes individual data points from the triangle for the reasons of:

- Erroneous data entries (used for best estimate and variability projections)
- Outliers that would disrupt the pattern (used for best estimate only)

<u>Bayesian Methods (e.g. BF, Benktander)</u>

The Bayesian methods combine Chain Ladder with an a priori estimator (Expected Loss Ratio or ELR) using credibility. These methods can be applied on both paid and incurred claims data. There are several parameters required for the BF method. All are chosen individually per line of business.

<u>Results and Trend Analysis (ULR)</u>

The Company generally calculates estimates for all methods available. The final selection is made comparing the results of:

- Incurred (Statistical Data)
- PCL (Projected Data)
- ICL (Projected Data)
- Bayesian methods (Projected Data)

The selection is taken per LOB and per accident quarter. Weighted averages of several methods are common in the industry.

<u>Cash-Flow Projection</u>

The pay-out patterns are selected separately for each line of business. The possible patterns available are the following:

- Pattern used in PCL

The pay-out patterns are generally reviewed within the actual versus expected method.

Variability Analysis (PAD)

The Company uses Mack Method for the variability analysis using the unaltered payment triangulation.

The variability is calculated per line of business.

Gross to Net Conversion

The initial analysis is conducted at gross of reinsurance basis as the claim development patterns are undisturbed by the reinsurance program and changes to the reinsurance program. The reinsurance assumptions are then applied to gross claim liability to obtain net of reinsurance results.

The provision for insurance claims, including provision for incurred but not reported claims (IBNR), is initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Company purchases a range of "excess of loss" and other reinsurance contracts with sufficient high retentions for only relative few, large claims to be recoverable. The method uses historical data, gross IBNR estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the reinsurance assets. The Company considers the credit rating of the individual reinsurer in the initial measurement of the reinsurance asset.

The assumptions that have the greatest effect on the measurement of general insurance contract provisions are the expected loss ratios for the most recent accident years. The expected loss ratio is the ratio of expected claims to premiums.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance contract liabilities. The illiquidity premium is determined by reference to observable market rates.

Discount rates applied for discounting of future cash flows are listed below:

	1 year		**3 years**		**5 years**		**10 years**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
2023								
Liability for insurance contracts issued	3.21%	4.24%	2.66%	4.06%	2.56%	3.95%	2.59%	3.77%
Liability for reinsurance contracts issued	3.21%	4.24%	2.66%	4.06%	2.56%	3.95%	2.59%	3.77%

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that ERGO requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

ERGO has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 75th percentile. That is, ERGO has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 75th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. ERGO has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant.

The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non linear. The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

The results of the sensitivity analysis and the impact on loss before tax and impact on equity as at 31 December are as follows:

		2023			
	Change in assumptions	**Impact on loss before tax gross of reinsurance increase / (decrease)**	**Impact on loss after tax net of reinsurance increase / (decrease)**	**Impact on equity gross of reinsurance Increase/ (decrease)**	**Impact on equity net of reinsurance Increase/ (decrease)**
		S$'000	S$'000	S$'000	S$'000
Weighted average term to settlement	+10%	(112)	(95)	112	95
Expected loss	+10%	2,908	2,465	(2,908)	(2,465)
Inflation rate	+1%	291	247	(291)	(247)
Weighted average term to settlement	-10%	117	99	(117)	(99)
Expected loss	-10%	(2,908)	(2,465)	2,908	2,465
Inflation rate	-1%	(291)	(247)	291	247

	Change in assumptions	2022 Impact on loss before tax gross of reinsurance increase / (decrease)	Impact on loss after tax net of reinsurance increase / (decrease)	Impact on equity gross of reinsurance Increase/ (decrease)	Impact on equity net of reinsurance Increase/ (decrease)
		S$'000	S$'000	S$'000	S$'000
Weighted average term to settlement	+10%	(253)	(198)	253	198
Expected loss	+10%	3,778	2,955	(3,778)	(2,955)
Inflation rate	+1%	378	296	(378)	(296)
Weighted average term to settlement	-10%	255	199	(255)	(199)
Expected loss	-10%	(3,778)	(2,955)	3,778	2,955
Inflation rate	-1%	(378)	(296)	378	296

6. Capital Adequacy

ERGO's capital management policy aims to:

- maintain a strong capital base to sustain and grow the business so as to uphold creditors and market confidence.
- comply with the regulatory capital requirements for the Company; and
- provide an adequate return to shareholders through prudent underwriting of insurance risks and optimising investment returns within the risk parameters established by the Board of Directors.

ERGO determines the amount of capital in accordance with business expansion needs as well as to meet the regulatory capital requirements for the Company. Capital consists of total equity. The Company also uses, where it is efficient to do so, sources of capital such as reinsurance, in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital. The Board monitors the return on shareholders' equity, which is defined as net profit after tax divided by total shareholders' equity, and the level of dividends to ordinary shareholders. In addition, the Board establishes and monitors the Capital Adequacy Ratio (CAR) of the Company, defined in the Insurance (Valuation and Capital) Regulations 2004 as the total financial resources divided by total risk requirements of the insurer. Within the monitoring framework of CAR, the Board monitors capital adequacy requirements to ensure that its financial resources are above the threshold of its as directed by the Monetary Authority of Singapore.

ERGO was in compliance with regulatory imposed capital requirements in 2023 and 2022.

There were no significant changes in ERGO's approach to capital management during the financial year. As at 31 December 2023, ERGO's CAR is 261% (2022: 226%).

Reserves

The reserves comprise the following items:

	2023 $'000	2022 $'000
Fair value reserve	(384)	(1,251)
Capital reserve	930	930

The fair value reserve comprises the cumulative net changes in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Capital reserve relates to the fair value of the redeemed and cancelled share options transferred from the share option reserve.

7. Investments

ERGO follows a liability-driven investment approach. The risk of the investment portfolio is measured in terms of its deviation from a structure that would match liabilities. The investment portfolio follows the principles of prudence, profitability, and liquidity. The investment management ensures a well-balanced asset mix and a good degree of diversification.

The table below summarises the financial assets held by the Company and the credit ratings which are based on Standard and Poor's financial strength rating or its equivalent.

Fixed income investments are assessed using stringent investment criterion and this includes, but is not limited to, a thorough analysis of each security's terms and conditions, the availability and quality of the guarantor, as well as financial strength of the issuer.

	Financial strength rating				
	AAA S$'000	A to AA S$'000	B to BBB S$'000	Unrated S$'000	Total S$'000
2023					
Financial assets measured at FVOCI					
- Singapore government bonds	41,899	–	–	–	41,899
- Public authority bonds	–	–	–	994	994
- Other corporate bonds	2,006	3,488	2,019	–	7,513
Accrued interest on debt securities	295	23	15	–	333
Other debtors	1	6	6	3	16
Deposits	–	4	–	126	130
Cash and cash equivalents	–	15,294	1,243	–	16,537
Reinsurance contract assets	–	21,251	112	5,207	26,570
	44,201	40,066	3,395	6,330	93,992

	Financial strength rating				
	AAA	A to AA	B to BBB	Unrated	Total
	S$'000	S$'000	S$'000	S$'000	S$'000
2022					
Financial assets measured at FVOCI					
- Singapore government bonds	44,305	–	–	–	44,305
- Public authority bonds	–	–	–	–	–
- Other corporate bonds	496	2,216	2,485	–	5,197
Accrued interest on debt securities	331	16	18	-	365
Other debtors	96	7	10	50	163
Deposits	–	–	1	129	130
Cash and cash equivalents	–	5,516	1,798	–	7,314
Reinsurance contract assets	–	19,720	–	20,381	40,101
	45,228	27,475	4,312	20,560	97,575

Sensitivity analysis

ERGO's debt securities were measured as available-for-sale financial assets in 2022 and FVOCI in 2023. As a result, changes in fair value of debt securities are recognised directly in equity.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity after tax of 17%. The correlation of variables will have a significant effect in determining the ultimate impact of interest rate risk, but to demonstrate the impact due to changes in variables, variables have been changed on an individual basis. It should be noted that movements in these variables are non linear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

	Change in interest rate	**2023** Impact on equity $'000	**2022** Impact on equity $'000
Insurance and reinsurance contract	+100 bps	155	136
Debt securities	+100 bps	(552)	(367)
Insurance and reinsurance contract	-100 bps	(158)	(139)
Debt securities	-100 bps	552	367

Investment securities

	2023 **$'000**	**2022** **$'000**
At fair value:		
Financial assets measured at FVOCI		
Singapore government bonds	41,899	44,305
Quoted public authority bonds	994	–

Quoted other corporate bonds	7,513	5,197
	50,406	49,502
Current portion	28,134	24,490
Non-current portion	22,272	25,012
	50,406	49,502

The loss allowance for debt investments at FVOCI of S$1,000 (2022: S$1,000) does not reduce the carrying amount of these investments (which are measured at fair value), but gives rise to an equal and opposite gain in OCI.

The weighted average interest rates of debt securities available-for-sale at the reporting date and the periods in which they mature are as follows:

	Weighted average effective interest rate %	Fixed interest rate maturing			
		Within 1 year S$'000	**Within 1 to 5 years S$'000**	**After 5 years S$'000**	**Total S$'000**
2023					
Debt securities at FVOCI					
- Singapore government bonds	2.02	22,903	18,996	–	41,899
- Public authority bonds	0.04	–	–	–	994
- Other corporate bonds	0.54	4,237	3,276	–	7,513
		28,134	22,272	–	50,406
2022					
Debt securities at FVOCI					
- Singapore government bonds	1.79	22,249	22,056	–	44,305
- Public authority bonds	–	–	–	–	–
- Other corporate bonds	0.34	2,241	2,956	–	5,197
		24,490	25,012	–	49,502

Fair value hierarchy

The table below analyses financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**	**Total**
	S$'000	**S$'000**	**S$'000**	**S$'000**
2023				
Available-for-sale financial assets				

- Quoted debt securities	50,406	–	–	50,406
2022				
Available-for-sale financial assets				
- Quoted debt securities	49,502	–	–	49,502

During the current and prior financial years, there have been no transfers between the different levels.

8. Financial Performance

Total investment income and net insurance financial result

	2023 S$'000	2022 S$'000
Investment (expenses)/income:		
Interest income		
Interest revenue calculated using the effective interest method	704	363
Net fair value gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(194)	(54)
Net foreign exchange income income/(expenses)	4	88
Total amounts recognised in the profit or loss	514	397
Amounts recognised in OCI	867	(786)
Total investment income	1,381	(389)

Other income and expenses

	2023 S$'000	2022 S$'000
Other income:		
Other sundry income	31	195
Interest from collateral deposit	84	12
Total other income	115	207
Other expenses:		
Information technology related fees	206	–
Interest paid on lease liabilities	113	34
Taxes, license & fees	77	67
Audit fee	441	131
Contributions & donations	1	5
GST irrecoverable tax	130	124
Property tax	20	10
Bank charges	2	2
Depreciation on right-of use assets	411	431
Total other expenses	1,401	804

Total other income and expenses	(1,286)	(597)

Claims development

Analysis of claims development – gross undiscounted liabilities for incurred claims

At 31 December 2023	2016	2017	2018	2019	2020	2021	2022	2023	Total
	Accident year								
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Estimate of cumulative claims	48,776	45,130	31,432	26,053	17,274	19,485	23,986	17,621	229,757
Cumulative payments:									
At end of accident year	12,249	16,034	10,483	10,015	7,456	7,195	7,280	7,986	–
- One year later	34,373	33,035	22,604	19,744	14,797	14,464	15,222	–	–
- Two years later	40,642	39,441	25,121	22,934	15,965	15,849	–	–	–
- Three years later	43,843	40,833	26,991	24,127	16,881	–	–	–	–
- Four years later	45,063	42,214	27,635	24,246	–	–	–	–	–
- Five years later	46,166	42,801	28,559	–	–	–	–	–	–
- Six years later	48,019	43,263	–	–	–	–	–	–	–
- Seven years later	48,154	–	–	–	–	–	–	–	–
Cumulative payments	48,154	43,263	28,559	24,246	16,881	15,849	15,222	7,986	200,160
Gross undiscounted liabilities for incurred claims	622	1,867	2,873	1,807	393	3,636	8,764	9,635	29,597
Effect of discounting	–	–	–	–	–	–	–	–	(476)
Estimates of the present value of future cash flows	–	–	–	–	–	–	–	–	29,121
Risk adjustment	–	–	–	–	–	–	–	–	104
Insurance (receivables) / payables	–	–	–	–	–	–	–	–	(5)
Total gross liabilities for incurred claims									29,220

At 31 December 2022	2015	2016	2017	2018	2019	2020	2021	2022	Total
	Accident year								
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Estimate of cumulative claims	31,782	48,767	45,522	30,928	26,026	19,162	21,001	28,206	251,394
Cumulative payments:									
At end of accident year	12,081	12,249	16,034	10,483	10,015	7,456	7,195	7,280	–
- One year later	23,181	34,373	33,035	22,604	19,744	14,797	14,464	–	–
- Two years later	27,126	40,642	39,441	25,121	22,934	15,965	–	–	–
- Three years later	28,758	43,843	40,833	26,991	24,127	–	–	–	–
- Four years later	30,057	45,063	42,214	27,635	–	–	–	–	–
- Five years later	30,711	46,166	42,801	–	–	–	–	–	–
- Six years later	31,423	48,019	–	–	–	–	–	–	–
- Seven years later	32,339	–	–	–	–	–	–	–	–
Cumulative payments	32,339	48,019	42,801	27,635	24,127	15,965	14,464	7,280	212,630
Gross undiscounted liabilities for incurred claims	(557)	748	2,721	3,293	1,899	3,197	6,537	20,926	38,764
Effect of discounting	–	–	–	–	–	–	–	–	(1,698)
Estimates of the present value of future cash flows	–	–	–	–	–	–	–	–	37,066
Risk adjustment	–	–	–	–	–	–	–	–	(12)
Insurance (receivables) / payables	–	–	–	–	–	–	–	–	51
Total gross liabilities for incurred claims									37,105

Analysis of claims development – net undiscounted liabilities for incurred claims

	Accident year								
At 31 December 2023	2016	2017	2018	2019	2020	2021	2022	2023	Total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Estimate of cumulative claims	27,245	23,896	18,518	11,501	8,747	12,270	15,328	11,312	128,817
Cumulative payments:									
At end of accident year	6,709	9,325	6,435	4,645	3,569	4,624	4,907	5,921	–
- One year later	20,127	17,428	13,632	8,493	7,476	9,237	10,424	–	–
- Two years later	23,122	20,633	15,022	9,587	8,098	10,235	–	–	–
- Three years later	25,006	21,571	16,053	10,164	8,527	–	–	–	–
- Four years later	25,814	22,284	16,426	10,490	–	–	–	–	–
- Five years later	26,408	22,603	16,911	–	–	–	–	–	–
- Six years later	26,765	22,851	–	–	–	–	–	–	–
- Seven years later	26,897	–	–	–	–	–	–	–	–
Cumulative payments	26,897	22,851	16,911	10,490	8,527	10,235	10,424	5,921	112,256
Net undiscounted liabilities for incurred claims	348	1,045	1,607	1,011	220	2,035	4,904	5,391	16,561
Effect of discounting	–	–	–	–	–	–	–	–	(266)
Estimates of the present value of future cash flows	–	–	–	–	–	–	–	–	16,295
Risk adjustment	–	–	–	–	–	–	–	–	73
Insurance receivables and payables	–	–	–	–	–	–	–	–	4,384
Total net liabilities for incurred claims									20,752

At 31 December 2022	2015	2016	2017	2018	2019	2020	2021	2022	Total
	Accident year								
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Estimate of cumulative claims	15,644	27,092	23,718	17,775	10,942	9,408	11,916	13,482	129,977
Cumulative payments:									
At end of accident year	6,536	6,709	9,325	6,435	4,645	3,569	4,624	4,907	–
- One year later	12,237	20,127	17,428	13,632	8,493	7,476	9,237	–	–
- Two years later	13,942	23,122	20,633	15,022	9,587	8,098	–	–	–
- Three years later	14,737	25,006	21,571	16,053	10,164	–	–	–	–
- Four years later	15,271	25,814	22,284	16,426	–	–	–	–	–
- Five years later	15,500	26,408	22,603	–	–	–	–	–	–
- Six years later	15,639	26,785	–	–	–	–	–	–	–
- Seven years later	15,873	–	–	–	–	–	–	–	–
Cumulative payments	15,873	26,785	22,603	16,426	10,164	8,098	9,237	4,907	114,093
Net undiscounted liabilities for incurred claims	(229)	307	1,115	1,349	778	1,310	2,679	8,575	15,884
Effect of discounting	–	–	–	–	–	–	–	–	(694)
Estimates of the present value of future cash flows	–	–	–	–	–	–	–	–	15,190
Risk adjustment	–	–	–	–	–	–	–	–	(5)
Insurance receivables and payables	–	–	–	–	–	–	–	–	1,684
Total net liabilities for incurred claims									16,869

9. Key accounting methodologies and assumptions

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

The assets and liabilities of the Company which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act. Such assets and liabilities are accounted for in the books of the respective insurance fund established under Section 16 of the Insurance Act. The net assets of the Company held in the insurance fund must be sufficient to meet the solvency requirements stipulated in Section 17 at all times. Assets held in the insurance fund may be withdrawn only if the withdrawal meets the requirements stipulated in Section 16 and the Company continues to be able to meet the solvency requirements of Section 17. All other assets and liabilities are accounted for in the books of the "shareholders' fund".

Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies or the explanatory notes set out below.

Functional and presentation currency

These financial statements are presented in Singapore dollars which is the Company's functional currency. The financial information is presented in Singapore dollars, rounded to the nearest thousand ($'000), unless otherwise stated.

The functional currency of the Company is the Singapore dollar as premiums and claims are denominated primarily in Singapore dollars and receipts from operations are usually retained in Singapore dollars, the directors of the Company are of the opinion that the Singapore dollar reflects the economic substance of the underlying events and circumstances relevant to the Company.

Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following note:

- Note 3 – significant accounting judgements and estimates

Adoption of new and amended standards and interpretations

In these financial statements, ERGO has applied FRS 117 and FRS 109 for the first time.

FRS 117 Insurance Contracts

FRS 117 replaces FRS 104 Insurance Contracts for annual periods beginning on or after 1 January 2023.

ERGO has restated comparative information for 2022 applying the transitional provisions in Appendix C to FRS 117. The nature of the changes in accounting policies can be summarised, as follows.

Changes to classification and measurement

The adoption of FRS 11 did not change the classification of ERGO's insurance contracts. ERGO was previously permitted under FRS 104 to continue accounting using its previous accounting policies. However, FRS 117 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by ERGO.

Under FRS 117, ERGO's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ("PAA"). The PAA simplifies the measurement of insurance contracts in comparison with the general model in FRS 117.

The measurement principles of the PAA differ from the earned premium approach used by ERGO under FRS 104 in the following key areas:

- The liability for remaining coverage reflects premiums received less amounts recognised in revenue for insurance services provided
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision)
- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not-reported (IBNR) claims) is determined on a discounted probabilityweighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes ERGO's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

ERGO expenses its insurance acquisition cash flows for all insurance product lines immediately when incurred, provided the coverage period of each contract in the group is no more than one year.

Changes to presentation and disclosure

For presentation in the statement of financial position, ERGO aggregates insurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance contracts issued that are assets
- Portfolios of insurance contracts issued that are liabilities
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the FRS 117 requirements.

The line item descriptions in the statement of comprehensive income have been changed significantly compared to those disclosed under FRS 104.

In the adoption of FRS 117, the standard requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses
- Income or expenses from reinsurance contracts held

ERGO provides disaggregated qualitative information about significant judgements, and changes in those judgements, when applying the standard.

Transition

On transition date, 1 January 2022, ERGO:

- has identified, recognised and measured each group of insurance contracts as if FRS 117 had always applied (unless impracticable), using the fully retrospective approach;
- derecognised any existing balances that would not exist had FRS 117 always applied
- recognised any resulting net difference in equity

Where the Fully Retrospective Approach has been determined to be impracticable to apply due to constraints on data or other relevant inputs, ERGO will apply the Modified Retrospective Approach and/or the Fair Value Approach. These are described in further details below.

(a) Fully retrospective approach ("FRA")
FRA measures insurance contracts for which reasonable and supportable information was fully available as at the transition date. Groups of insurance contracts are identified and measured as if FRS 117 had always been applied.

(b) Modified retrospective approach ("MRA")

MRA is applied where full information required is not available or cannot reasonably be made available for the FRA. The aim of the MRA is to achieve the outcome that is as close as possible to the FRA using available historical information.

Under the MRA, ERGO uses the simplifications and modifications specified in the standard only to the extent that the information required for the measurement applying FRA is not available.

(c) Fair value approach ("FVA")
Under the FVA, the Contractual Service Margin ("CSM") is the difference between the fair value of the group of insurance contracts determined in accordance with FRS 113 Fair Value Measurement and the fulfilment cash flows.

ERGO applied the FRA for group of insurance contracts underwritten on or after 1 January 2022 and the MRA or FVA for group of insurance contracts underwritten prior to 1 January 2022 as the application of the FRA on transition date for this group of insurance contracts was deemed impracticable given that historical discount rates especially the weighted-average discount rates could not be derived without undue costs and effort.

FRS 109 Financial Instruments

FRS 109 replaced FRS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, ERGO elected, under the amendments to FRS 104, to apply the temporary exemption from FRS 109, thereby deferring the initial application date of FRS 109 to align with the initial application of FRS 117.

ERGO has applied FRS 109 retrospectively for financial instruments in the scope of FRS 109. As permitted by FRS 109, ERGO has not restated the comparatives on initial application of the standard but ERGO is applying the classification overlay as permitted by the Amendment to FRS 117 issued in December 2021. Differences arising from the adoption of FRS 109 were recognised in equity as of 1 January 2023 and are disclosed below.

The nature of the changes in accounting policies can be summarised, as follows:

<u>Changes to classification and measurement</u>

To determine their classification and measurement category, FRS 109 requires all financial assets to be assessed based on a combination of ERGO's business model for managing the assets and the instruments' contractual cash flow characteristics.

The FRS 39 measurement categories for financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity (HTM) and loans and receivables (L&R) at amortised cost) have been replaced by:

- Financial assets at fair value through profit or loss, including equity instruments and derivatives

- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (not used by ERGO)
- Debt instruments at amortised cost

ERGO's classification of its financial assets and the quantitative impact of applying classification and measurement under FRS 109 as at 1 January 2022 is disclosed below.

The adoption of FRS 109 has fundamentally changed ERGO's accounting for impairment losses for debt instruments held at FVOCI or amortised cost by replacing FRS 39's incurred loss approach with forward-looking expected credit loss ("ECL") approach.

FRS 109 requires ERGO to record an allowance for ECLs for all debt instruments not held at FVPL.

For debt instruments, the ECL is based on the portion of lifetime ECLs (LTECL) that would result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination or purchase of the assets, the allowance is based on the full LTECL.

ERGO's debt instruments at FVOCI comprise quoted bonds that are graded by external Credit Rating Agency. It is ERGO's policy to measure such instruments on a 12-month ECL (12mECL) basis. The ECL is derived from the Group's internal model, which was interpolated for ERGO.

The adoption of the ECL requirements of FRS 109 has resulted in increases in impairment allowances in respect of ERGO's debt instruments. The increase in allowance was adjusted to equity.

The quantitative impact of applying FRS 109 as at 1 January 2022 is disclosed below.

Changes in disclosure – FRS 107

To reflect the differences between FRS 109 and FRS 39, FRS 107 Financial Instruments: Disclosures was also amended. ERGO applied the amended disclosure requirements of FRS 107, together with FRS 109, for the year beginning 1 January 2023. Changes include transition disclosures as shown below.

Transition disclosures FRS 109

The following pages set out the impact of adopting FRS 109 on the statement of financial position, including the effect of replacing FRS 39's incurred credit loss calculations with FRS 109's ECLs.

A reconciliation between the carrying amounts under FRS 39 and the balances reported under FRS 109 as of initial application date 1 January 2023 is, as follows:

S$'000		**FRS 39 measurement**		**Remeasurement**		**FRS 109**	
	Ref	**Category**	**Amount**	**ECL**	**Other**	**Amount**	**Category**
Debt securities	A	AFS[1]	49,502	(1)	–	49,501	FVOCI
Cash and cash equivalents		L&R[2]	7,314	–	–	7,314	AC
Other receivables excluding GST receivables		L&R[2]	528	–	–	528	AC
Deposits		L&R[2]	130	–	–	130	AC
		L&R	**7,972**	–	–	**7,972**	**AC**

1 Available-for-sale

2 Loans and receivables

A As of 1 January 2023, ERGO assessed its debt instrument portfolio which had previously been classified as AFS debt instruments. ERGO concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, ERGO classified these investments as debt instruments measured at FVOCI.

The following table reconciles the aggregate opening loan loss provision allowances under FRS 39 to the ECL allowances under FRS 109 at date of initial application.

	Loan loss provision under FRS 39 at 31 December 2022	**Remeasurement**	**ECLs under FRS 109 at 1 January 2023**
	S$'000	S$'000	S$'000
Impairment allowance for			
Available-for-sale debt investment securities per FRS 39 / Debt instruments at amortised cost under FRS 109	–	–	–
Available-for-sale debt investment securities per FRS 39 / Debt instruments at FVOCI under FRS 109	–	(1)	(1)
	–	(1)	(1)

The impact of transition to FRS 109 on reserves and accumulated losses is, as follows:

	2023
	S$'000
Fair value reserve	
Closing balance under FRS 39 (31 December 2022)	1,252
Recognition of FRS 109 ECLs for debt instruments measured at amortised cost and at FVOCI	(1)
Opening balance under FRS 109 (1 January 2023)	1,251
Accumulated losses	
Closing balance under FRS 39 (31 December 2022)	51,990
Recognition of FRS 109 ECLs for debt instruments measured at amortised cost and at FVOCI	1
Opening balance under FRS 109 and FRS 117 (1 January 2023)	51,991
Total change in equity (after tax) due to the application of new standards	
Fair value reserve	1
Accumulated losses	(1)
Total change in equity due to the application of FRS 109	–

Standards issued but not yet effective

ERGO has not adopted the following standards applicable to ERGO that have been issued but not yet effective:

Description	**Effective for annual periods beginning on or after**
Amendments to FRS 1 *Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to FRS 1 *Presentation of Financial Statements*: Non-current Liabilities with Covenants	1 January 2024
Amendments to FRS 116 *Leases*: Lease Liability in a Sale and Leaseback	1 January 2024

Amendments to FRS 7 *Statement of Cash Flows* and FRS 107	
Financial Instruments: Disclosures: Supplier Finance	
Arrangements: Non-current Liabilities with Covenants	1 January 2024
Amendments to FRS 21 *The Effects of Changes in Foreign*	
Exchange Rates: Lack of Exchangeability	1 January 2025

The directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application.

Significant accounting judgements and estimates

Management has assessed the development, selection and disclosure of the critical accounting policies and estimates, and the application of these policies and estimates.

a) Impairment of financial assets measured at FVOCI

ERGO records impairment charges on financial assets measured at FVOCI when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, ERGO evaluates, among other factors, historical price movements and the duration and extent to which the fair value of an investment is less than its cost.

b) Impairment losses of financial assets

The measurement of impairment losses under FRS 109 across relevant financial assets requires judgement, in particular, for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios and the relevant inputs used..

c) Determination of lease terms of contracts with extension and termination options

ERGO determines the lease team as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

ERGO has a lease contract that include extension options. ERGO applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension. After the commencement date, ERGO reassesses the lease term whether there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to extend (e.g. construction of significant leasehold improvements).

ERGO included the extension option in the lease term for leases of leasehold building because of the leasehold improvements made and the significant costs that would arise to replace the assets.

As at 31 December 2023, potential future (discounted) cash outflows of approximately S$1,195,077 (2022: S$1,199,641) have been included in lease liabilities because it is reasonably certain that the leases will be extended.

d) Leases – Estimating the incremental borrowing rate

ERGO cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that ERGO would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what ERGO 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. ERGO estimates the incremental borrowing rate using observable inputs (such as market interest rate) when available and is required to make certain entity-specific estimates.

e) Insurance and reinsurance contracts

ERGO applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to ERGO's previous accounting treatment under FRS 104. However, when measuring liabilities for incurred claims, ERGO now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

For this purpose, management relies significantly on the actuarial valuation performed by an approved actuary in accordance with FRS 117.

The description of the principal estimates and assumptions underlying the determination of insurance and reinsurance contract liabilities and the impact of changes in these estimates and assumptions are discussed in the sensitivity analysis below. The sensitivity analysis has been performed on a net basis after accounting for reinsurance.

Liability for remaining coverage

Insurance acquisition cash flows

ERGO is eligible and chooses to recognise insurance acquisition cash flows as an expense immediately as incurred for all portfolios.

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

The effect of electing to recognise insurance acquisition cash flows as an expense when incurred for a group of insurance contracts is to increase the liability for remaining coverage and reduce the likelihood of any subsequent onerous contract loss. There would be an increased charge to profit or loss on incurring the expense, offset by an increase in profit released over the coverage period.

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

Time value of money

For all product lines, ERGO adjusts the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition.

However, given the uncertainty in establishing a provision for outstanding claims, it is likely that the final outcome will prove to be different from the original liability established.

Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that ERGO's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Some of the insurance contracts that have been written in the property line of business permit ERGO to sell property acquired in settling a claim. ERGO also has the right to pursue third parties for payment of some or all costs. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of ultimate claims costs.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

10. Environmental Risk Management Disclosure

As part of ERGO Group, ERGO Insurance (Singapore) is guided by our Group's environmental risk management strategy. A summary of our Group's approach can be found on its website at the following link: https://www.ergo.com/en/Verantwortung.

ERGO Group publishes an annual sustainability report. The ERGO Group Sustainability Report 2023 can be downloaded at: https://www.ergo.com/en/Nachhaltigkeit/Reporting-und-Kennzahlen/Nachhaltigkeitsbericht.

The Report covers the period from 1 January 2023 to 31 December 2023. The Report was prepared in accordance with the GRI (Global Reporting Initiative) Standards. Key sections containing our Group's environmental risk management practices are:

- Page 4: Our sustainability strategy and key voluntary commitments,

- Pages 4 – 7: Responsible corporate governance,

- Page 12: Sustainable products and services,

- Pages 13 - 14: Sustainable Investment, and

- Pages 15 - 16: Environmental and Climate Protection.

11. Additional Information

Additional information on the Company can be found in the following:

a) Company's Annual Report for financial year ended 31 December 2023, available publicly from ACRA at this hyperlink: https://www.bizfile.gov.sg/

b) Company's MAS Returns, available publicly from MAS and found at this hyperlink: https://www.mas.gov.sg/statistics/insurance-statistics/insurance-company-returns/I846G