ERGO

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 and corporate travel, financial lines and marine; and

b) personal insurance products from private motor to travel 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)
- Additive (Projected Data)
- Bayesian methods (Projected Data)
- Cape Cod (Projected Data)

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

Salvage and Subrogation (SaSu) projections as well as allocated loss adjustment expenses (“ALAE”) projections are only performed on triangulation techniques ICL, PCL and ADD.

Cash-Flow Projection

The pay-out patterns for attritional claims, SaSu, large losses and ALAE are selected separately for each line of business. The possible patterns available are the following:

- Historical Mean
- Projected Mean
- Pattern used in PCL
- Pattern used in Additive
- Manual Pattern

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.

Two results, one on PCL, another on ADD, are 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.

Estimation for net unearned premium reserves

The net premium reserve is based on system generated status applying actual reinsurance cessions at a policy level.

Sensitivity analysis

Assessment of uncertainty

Our valuation methodology relies extensively on the historical claims data and assumptions made on future developments, and therefore there are uncertainties in the assumptions used. Elements of uncertainty include, but are not limited to, errors in the data resulting in errors when selecting assumptions, fluctuations in claim experience, and future economic and environmental factors that may impact upon future claim payments.

To capture or quantify the uncertainty, we have performed a sensitivity analysis on the premiums and claims liabilities, both net of reinsurance recoveries, based on changes in assumptions that may affect the level of liabilities. The assumptions considered in the sensitivity analysis are as follows:

- The Company considered changes in the discount rate. The level of change is from -5% to +5%. The Company considered 0% as absolute minimum for the yield curve.

- The projection method uses two recent accident years for premium liability and ten recent accident years for claim liability to determine the maximum scenario and minimum scenario.
- The Selected Ultimate Loss Ratio ("ULR") is derived from the best estimation of claims reserve and is used to determine the URR. The level of change is from –15% to +15%. The Company applied the change to the latest accident year.

The results of the sensitivity analysis (net of reinsurance) and the impact on the premium liabilities and claim liabilities as at 31 December are as follows:

	Discount rate		**Projection Method**		**ULR**	
	+5%	**–5%**	**Max**	**Min**	**+15%**	**–15%**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2021						
Premium liabilities	–	–	–	–	3,117	–
Claim liabilities*	(1,201)	–	2,108	(745)	1,046	(312)
Insurance contract provisions	(1,201)	–	2,108	(745)	4,163	(312)
2020						
Premium liabilities	–	–	–	–	–	–
Claim liabilities*	(1,312)	–	1,319	(1,851)	2,831	(994)
Insurance contract provisions	(1,312)	–	1,319	(1,851)	2,831	(994)

***** The impact on claim liabilities is calculated assuming the Company holds the higher of the case reserves and the 75% claim liabilities for each class of business. Discount rate is floored at 0%.

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.

ERGO was in compliance with regulatory imposed capital requirements in 2021 and 2020.

There were no significant changes in ERGO's approach to capital management during the financial year. As at 31 December 2021, the Company's CAR is 172% (2020: 242%).

Reserves

The reserves comprise the following items:

	2021 **$'000**	**2020** **$'000**
Fair value reserve	(466)	400
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.

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	**A to AA**	**B to BBB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2021				
Debt securities:				
- Government securities	27,774	–	–	27,774
- Public authorities	–	–	–	–
- Corporate securities	535	4,891	3,594	9,020
Other receivables	267	38	39	344
Fixed deposits relating to security received from policyholders	–	1,975	2,649	4,624
Cash and cash equivalents	–	13,857	1,836	15,693
	28,576	20,761	8,118	57,455
2020				
Debt securities:				
- Government securities	28,390	–	1,460	29,850
- Public authorities	1,256	–	–	1,256
- Corporate securities	–	4,872	2,794	7,666
Other receivables	215	116	–	331
Fixed deposits relating to security received from policyholders	–	1,604	2,818	4,422
Cash and cash equivalents	–	8,188	1,805	9,993
	29,861	14,780	8,877	53,518

Sensitivity analysis

The Company's debt securities are designated as available-for-sale financial assets. As a result, changes in fair value of debt securities are recognised directly in equity. A 10% increase in the prices of underlying debt securities at the reporting date would increase equity by the following amount:

	2021 $'000	2020 $'000
Increase in equity by	6,294	6,009

A 10% decrease in the prices of underlying debt securities would have an equal but opposite effect on equity, on the basis that all other variables remain constant. Impact on equity is after tax of 17%.

	2021 $'000	2020 $'000
At fair value:		
Debt securities available-for-sale		
Singapore government bonds	27,774	29,850
Quoted public authority bonds	–	1,256
Quoted other corporate bonds	9,020	7,666
	36,794	38,772
Current portion	4,437	15,675
Non-current portion	32,357	23,097
	36,794	38,772

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:

		Fixed interest rate maturing			
	Weighted average effective interest rate %	Within 1 year $'000	Within 1 to 5 years $'000	After 5 years $'000	Total $'000
2021					
Available-for-sale debt securities					
- Singapore government bonds	2.08	1,119	26,655	–	27,774
- Public authority bonds	–	–	–	–	–
- Other corporate bonds	0.83	3,318	5,702	–	9,020
		4,437	32,357	–	36,794
2020					
Available-for-sale debt securities					
- Singapore government bonds	2.02	10,405	19,445	–	29,850
- Public authority bonds	0.06	1,256	–	–	1,256
- Other corporate bonds	0.65	4,014	3,652	–	7,666
		15,675	23,097	–	38,772

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**
	$’000	**$’000**	**$’000**	**$’000**
2021				
Available-for-sale financial assets				
- Quoted debt securities	36,794	–	–	36,794
2020				
Available-for-sale financial assets				
- Quoted debt securities	38,772	–	–	38,772

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

8. Financial Performance

	2021 $'000	2020 $'000
Investment (expenses)/income:		
Interest income		
- Available-for-sale financial assets	669	552
- Fixed deposits relating to security deposits received from policyholders	14	1
- Cash and cash equivalents	39	87
	722	640
Loss on foreign exchange	(24)	(55)
Investment expenses	(33)	(33)
Total investment income (net)	665	552
Other income:		
Gain on sale of available-for-sale financial assets	86	52
Gain on disposal of fixed assets	–	68
Property tax rebate	15	14
Other sundry income	52	17
Gain on termination of lease	–	32
Total other income	153	183
Total investment and other income (net)	818	735

Claims development

Analysis of claims development – gross of reinsurance

At 31 December 2021	2014 S$'000	2015 S$'000	2016 S$'000	2017 S$'000	Accident year 2018 S$'000	2019 S$'000	2020 S$'000	2021 S$'000	Total S$'000
Estimate of cumulative claims:									
At end of accident year	41,021	34,275	41,422	49,950	34,187	29,199	24,977	31,375	
- One year later	41,886	36,199	48,664	48,667	33,041	27,118	20,978		
- Two years later	42,669	35,300	50,152	48,435	31,771	26,194			
- Three years later	40,672	34,036	47,375	47,568	31,103				
- Four years later	39,257	33,361	47,304	47,380					
- Five years later	38,048	32,592	47,198						
- Six years later	37,935	32,629							
- Seven years later	37,872								
Estimate of cumulative claims	37,872	32,629	47,198	47,380	31,103	26,194	20,978	31,375	274,729
Cumulative payments	37,430	31,441	45,833	43,774	27,223	22,937	14,797	11,801	235,236
Estimate of claims reserves	442	1,188	1,365	3,606	3,880	3,257	6,181	19,574	39,493
Indirect claims expenses	19	50	58	153	164	138	262	594	1,438
Current estimate of accumulated claim liabilities	461	1,238	1,423	3,759	4,044	3,395	6,443	20,168	40,931
Estimated claims for prior accident years									355
Provision for adverse deviation									3,084
Gross provision for insurance claims (Note 14)									44,370

At 31 December 2020	2013 S$'000	2014 S$'000	2015 S$'000	2016 S$'000	Accident year 2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000	Total S$'000
Estimate of cumulative claims:									
At end of accident year	48,915	41,021	34,275	41,422	49,950	34,187	29,199	24,977	
- One year later	47,486	41,886	36,199	48,664	48,667	33,041	27,118		
- Two years later	49,167	42,669	35,300	50,152	48,435	31,771			
- Three years later	50,433	40,672	34,036	47,375	47,568				
- Four years later	47,061	39,257	33,361	47,304					
- Five years later	47,887	38,048	32,592						
- Six years later	48,902	37,935							
- Seven years later	48,768								
Estimate of cumulative claims	48,768	37,935	32,592	47,304	47,568	31,771	27,118	24,977	298,033
Cumulative payments	48,546	37,272	30,730	44,729	42,393	25,353	19,744	7,456	256,223
Estimate of claims reserves	222	663	1,862	2,575	5,175	6,418	7,374	17,521	41,810
Indirect claims expenses	7	43	85	109	244	369	464	679	2,000
Current estimate of accumulated claim liabilities	229	706	1,947	2,684	5,419	6,787	7,838	18,200	43,810
Estimated claims for prior accident years									183
Provision for adverse deviation									3,910
Gross provision for insurance claims (Note 14)									47,903

Analysis of claims development – net of reinsurance

At 31 December 2021	2014 S$'000	2015 S$'000	2016 S$'000	2017 S$'000	Accident year 2018 S$'000	2019 S$'000	2020 S$'000	2021 S$'000	Total S$'000
Estimate of cumulative claims:									
At end of accident year	21,146	16,858	25,202	14,264	12,239	11,460	11,927	16,394	
- One year later	20,803	17,344	9,937	6,945	9,917	9,538	8,363		
- Two years later	20,816	11,387	7,706	7,755	10,180	9,926			
- Three years later	10,791	6,184	7,628	7,649	10,364				
- Four years later	6,282	6,074	7,682	7,486					
- Five years later	6,448	5,945	7,585						
- Six years later	6,439	5,864							
- Seven years later	6,424								
Estimate of cumulative claims	6,424	5,864	7,585	7,486	10,364	9,926	8,363	16,394	72,406
Cumulative payments	6,353	5,672	7,365	6,904	9,738	9,400	7,365	4,620	57,417
Estimate of claims reserves	71	192	220	582	626	526	998	11,774	14,989
Indirect claims expenses	19	50	58	153	164	138	262	594	1,438
Current estimate of accumulated claim liabilities	90	242	278	735	790	664	1,260	12,368	16,427
Estimated claims for prior accident years									69
Provision for adverse deviation									1,129
Gross provision for insurance claims (Note 14)									17,625

At 31 December 2020	Accident year 2013	2014	2015	2016	2017	2018	2019	2020	Total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Estimate of cumulative claims:									
At end of accident year	24,099	21,146	16,858	25,202	14,264	12,239	11,460	11,927	
- One year later	23,626	20,803	17,344	9,937	6,945	9,917	9,538		
- Two years later	24,068	20,816	11,387	7,706	7,755	10,180			
- Three years later	23,931	10,791	6,184	7,628	7,649				
- Four years later	8,602	6,282	6,074	7,682					
- Five years later	6,162	6,448	5,945						
- Six years later	6,696	6,439							
- Seven years later	6,605								
Estimate of cumulative claims	6,605	6,439	5,945	7,682	7,649	10,180	9,538	11,927	65,965
Cumulative payments	6,564	6,335	5,626	7,234	6,768	9,141	8,376	3,482	53,526
Estimate of claims reserves	41	104	319	448	881	1,039	1,162	8,445	12,439
Indirect claims expenses	7	43	85	109	244	369	464	679	2,000
Current estimate of accumulated claim liabilities	48	147	404	557	1,125	1,408	1,626	9,124	14,439
Estimated claims for prior accident years									38
Provision for adverse deviation									1,144
Gross provision for insurance claims (Note 14)									15,621

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

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, ERGO has adopted all the new and amended standards which are relevant to the company and are effective for annual financial periods beginning on or after 1 January 2021. The adoption of these standards did not have any material effect on the financial performance or position of the company.

Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
Amendment to FRS 116 *Leases: Covid-19-Related Rent Concessions*	1 April 2021
Amendments to FRS 16 *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to FRSs 2018-2020	1 January 2022
Amendments to FRS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to FRS 8 *Accounting Policies, Changers in Accounting Estimates and Errors: Definition of Accounting estimates*	1 January 2023
Amendments to FRS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
FRS 117 *Insurance Contracts*	1 January 2023
Amendment to FRS 117 *Insurance Contracts*	1 January 2023

Except for the adoption of FRS 117 *Insurance Contracts* and Amendment to FRS 117 *Insurance Contracts* as described below, 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.

FRS 117 *Insurance Contracts* and Amendment to FRS 117 *Insurance Contracts*

In March 2018, the Accounting Standards Council ("ASC") in Singapore issued FRS 117 *Insurance Contracts,* a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. FRS 117 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts.

The overall objective of FRS 117 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in FRS 104 Insurance Contracts, which are largely based on grandfathering previous local accounting policies, FRS 117 provides a comprehensive model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts

FRS 117 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

In March 2020, the IASB decided that the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023 and also extended the temporary exemption from applying IFRS 9 for qualifying insurers to 1 January 2023 to enable them to implement both IFRS 9 and IFRS 17 at the same time

The ASC in Singapore has on 27 November 2020 adopted the amendment to the effective date of FRS 117 to 1 January 2023 and extended the temporary exemption from applying FRS 109 for qualifying insurers to 1 January 2023.

On 14 December 2021, the ASC in Singapore issued Amendment to FRS 117, Initial Application of FRS 117 and FRS 109 – Comparative information, which is effective when the entity first applies FRS 117. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of FRS 109 had been applied to that financial asset before (the "classification overlay").

ERGO is evaluating the impact of the new standard on its financial statements and related disclosures and plans to adopt the new standard on the required effective date.

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 insurance receivables

ERGO determines impairment of insurance receivables based on assessment of objective evidence available such as significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments.

In assessing the objective evidence, ERGO has also considered the impact of COVID-19 on its customers and assessed them based on each customer's credit probabilities. As at 31 December 2021, the allowance for impairment loss on insurance receivables amount to S$139,000 (2020: S$248,000)

b) Impairment of available-for-sale financial assets

ERGO records impairment charges on available-for-sale financial assets 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 judgement. In making this judgement, 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. There was no impairment loss recognised for available-for-sale financial assets for the financial year ended 31 December 2021 and 2020.

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 2021, potential future (discounted) cash outflows of approximately S$1,209,000 (2020: S$1,209,000) 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) Determination of insurance contract liabilities

For this purpose, management relies significantly on the actuarial valuation performed by an approved actuary in accordance with local insurance regulatory requirements.

The description of the principal estimates and assumptions underlying the determination of provisions or unexpired risks and insurance claims and the impact of changes in these estimates and assumptions are discussed in the sensitivity analysis. The sensitivity analysis has been performed on a net basis after accounting for reinsurance.

Process used to determine the assumptions for measuring insurance contracts

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

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.

Provision is made at the reporting date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amount already paid.

The source of data used as inputs for the assumptions are typically internal to ERGO, using detailed studies that are carried out at least quarterly. The assumptions are checked to ensure that they are consistent with observable market information or other published information.

ERGO pays particular attention to current trends. Where in early years there is insufficient information to make a reliable estimate of claims development, prudent assumptions are used.

The estimation of incurred but not reported ("IBNR") claims is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available. IBNR claims may often not be apparent to ERGO until many years after the occurrence of the event given rise to the claim.

Each notified claim is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arise.

The provision estimations differ by class of business due for a number of reasons, including:

- Differences in the terms and conditions of the insurance contracts;
- Differences in the complexity of claims;
- The severity of individual claims; and
- Difference in the period between the occurrence and reporting of claims

The liability class of claims will typically display greater variation between initial estimates and the actual outcome because there is a greater degree of difficulty in estimating the IBNR provisions. For the other classes of business, claims are typically reported reasonably soon after the claim event, and hence tend to display lower levels of variability.

The cost of outstanding claims and the IBNR provisions, both gross and net of reinsurance, are estimated using a range of statistical methods. Such methods project the development of paid and unpaid claims, average cost per claim and ultimate claim numbers for each accident period based on the observation development of earlier.

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 2020 can be downloaded at: https://www.ergo.com/en/Verantwortung/Reporting-und-Kennzahlen/Nachhaltigkeitsbericht.

The Report covers the period from 1 January 2020 to 31 December 2020, and important topics up to June 2021 have been partially included.

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 contribution to the Paris Climate Goals,
- Pages 6 – 13: Governance,
- Pages 18 - 21: Sustainable Investment, and
- Pages 22 - 28: 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 2021, 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