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

The Company 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 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. The 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. Construction related insurances

Product features

ERGO writes construction related insurances such as engineering (contractors' all risks and erection 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 developing over time and therefore uncertain. 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.

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 employees 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 construction 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 bonds, 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

The Company writes motor insurance, both the property and the liability cover, 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. In addition, ERGO has structured a treaty program to manage its retention.

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. The Company 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

Triangulation (PCL, ICL, ADD*)*

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)

Bayesian Methods (e.g. BF, Benktander)

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.

Results and Trend Analysis (ULR)

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**
2019						
Premium liabilities*	–	–	183	(146)	493	(146)
Claim liabilities	(962)	–	6,277	(1,297)	1,354	(617)
Insurance contract provisions	(962)	–	6,460	(1,443)	1,847	(763)
2018						
Premium liabilities*	–	–	1,738	(446)	7,238	4,164
Claim liabilities	(423)	743	5,948	(1,801)	1,740	(1,740)
Insurance contract provisions	(423)	743	7,686	(2,247)	8,978	2,424

* Sensitivity analysis on discount rate changes is not performed on premium liabilities

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 Board of Directors monitors the return on shareholders' equity, which is defined as net profit after tax divided by total shareholders' equity, and the level of dividends. In addition, the Board also establishes and monitors the Capital Adequacy Ratio ("CAR") of the Company, defined in the Insurance Regulations as the total financial resources divided by total risk requirements of the insurer.

ERGO was in compliance with regulatory imposed capital requirements in 2019 and 2018.

There were no significant changes in ERGO's approach to capital management during the year. As at 31 December 2019, the Company's CAR is 202% (2018: 202%).

Reserves

The reserves comprise the following items:

	2019	**2018**
	$'000	**$'000**
Fair value reserve	47	(283)
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**
2019				
Debt securities:				
- Government securities	21,982	–	2,040	24,022
- Public authorities	1,251	–	–	1,251
- Corporate securities	–	3,033	9,045	12,078
Other receivables	170	43	124	337
Fixed deposits relating to security received from policyholders	–	369	2,908	3,277
Cash and cash equivalents	–	8,355	1,661	10,016
	23,403	11,800	15,778	50,981
2018				
Debt securities:				
- Government securities	21,151	–	1,033	22,184
- Public authorities	1,242	–	–	1,242
- Corporate securities	2,782	3,803	7,572	14,157
Other receivables	145	47	111	303
Fixed deposits relating to security received from policyholders	–	–	2,258	2,258
Cash and cash equivalents	–	10,757	2,717	13,474
	25,320	14,607	13,691	53,618

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:

	2019 **$'000**	**2018** **$'000**
Increase in equity by	3,735	3,758

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.

	2019 **$'000**	**2018** **$'000**
At fair value:		
Debt securities available-for-sale		
Singapore government bonds	24,022	22,184
Quoted public authority bonds	1,251	1,242
Quoted other corporate bonds	12,078	14,157
	37,351	37,583
Current portion	15,402	7,217
Non-current portion	21,949	30,366
	37,351	37,583

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			
	Effective interest rate %	**Within 1 year $'000**	**Within 1 to 5 years $'000**	**After 5 years $'000**	**Total $'000**
2019					
Available-for-sale debt securities					
- Singapore government bonds	1.65	4,852	19,170	–	24,022
- Public authority bonds	0.06	–	1,251	–	1,251
- Other corporate bonds	1.12	10,550	1,528	–	12,078
		15,402	21,949	–	37,351
2018					
Available-for-sale debt securities					
- Singapore government bonds	2.40	5,217	15,911	1,056	22,184
- Public authority bonds	1.75	–	1,242	–	1,242
- Other corporate bonds	3.40	2,000	11,902	255	14,157
		7,217	29,055	1,311	37,583

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**
2019				
Available-for-sale financial assets				
- Quoted debt securities	37,351	–	–	37,351
2018				
Available-for-sale financial assets				
- Quoted debt securities	37,583	–	–	37,583

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

8. Financial Performance

	2019 $'000	2018 $'000
Investment (expenses)/income:		
Interest income		
- Available-for-sale financial assets	664	1,116
- Fixed deposits with banks (security deposits)	–	2
- Cash and cash equivalents	104	108
	768	1,226
Loss on foreign exchange	(25)	(84)
Investment expenses	(35)	(40)
Total investment income (net)	708	1,102
Other income/(expenses):		
Gain/(Loss) on sale of available-for-sale financial assets	2	(76)
Other sundry income	66	15
Total other income/(expenses)	68	(61)
Total investment and other income (net)	776	1,041

Claims development

Analysis of claims development – gross of reinsurance

	Accident year 2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
At 31 December 2019									
Estimate of cumulative claims:									
At end of accident year	39,496	48,915	41,021	34,275	41,422	49,950	34,187	29,199	
- One year later	38,157	47,486	41,886	36,199	48,664	48,667	33,041		
- Two years later	38,195	49,167	42,669	35,300	50,152	48,435			
- Three years later	37,823	50,433	40,672	34,036	47,375				
- Four years later	34,631	47,061	39,257	33,361					
- Five years later	33,766	47,887	38,048						
- Six years later	33,621	48,902							
- Seven years later	33,485								
Estimate of cumulative claims	33,485	48,902	38,048	33,361	47,375	48,435	33,041	29,199	311,846
Cumulative payments	33,460	47,850	37,202	30,075	43,510	41,001	22,836	10,015	265,949
Estimate of claims reserves	25	1,052	846	3,286	3,865	7,434	10,205	19,184	45,897
Indirect claims expenses	2	43	40	119	162	295	435	788	1,884
Current estimate of accumulated claim liabilities	27	1,095	886	3,405	4,027	7,729	10,640	19,972	47,781
Estimated claims for prior accident years									124
Provision for adverse deviation									4,333
Gross provision for insurance claims (note 15)									52,238

	Accident year								
	2011	2012	2013	2014	2015	2016	2017	2018	Total
	$’000	$’000	$’000	$’000	$’000	$’000	$’000	$’000	$’000
At 31 December 2018									
Estimate of cumulative claims:									
At end of accident year	34,739	39,496	48,915	41,021	34,275	41,422	49,950	34,187	
- One year later	34,423	38,157	47,486	41,886	36,199	48,664	48,667		
- Two years later	33,518	38,195	49,167	42,669	35,300	50,152			
- Three years later	33,569	37,823	50,433	40,672	34,036				
- Four years later	33,356	34,631	47,061	39,257					
- Five years later	31,140	33,766	47,887						
- Six years later	30,454	33,621							
- Seven years later	30,344								
Estimate of cumulative claims	30,344	33,621	47,887	39,257	34,036	50,152	48,667	34,187	318,151
Cumulative payments	30,306	33,323	46,511	36,406	28,776	40,319	34,602	10,815	261,058
Estimate of claims reserves	38	298	1,376	2,851	5,260	9,833	14,065	23,372	57,093
Indirect claims expenses	1	15	72	124	181	327	563	776	2,059
Current estimate of accumulated claim liabilities	39	313	1,448	2,975	5,441	10,160	14,628	24,148	59,152
Estimated claims for prior accident years									894
Provision for adverse deviation									5,518
Deferred gain from ceding out a portion of the losses on motor portfolio									–
Gross provision for insurance claims (note 15)									65,564

Analysis of claims development – net of reinsurance

	Accident year 2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
At 31 December 2019									
Estimate of cumulative claims:									
At end of accident year	21,087	24,099	21,146	16,858	25,202	14,264	12,239	11,460	
- One year later	20,254	23,626	20,803	17,344	9,937	6,945	9,917		
- Two years later	20,484	24,068	20,816	11,387	7,706	7,755			
- Three years later	20,378	23,931	10,791	6,184	7,628				
- Four years later	18,764	8,602	6,282	6,074					
- Five years later	6,835	6,162	6,448						
- Six years later	5,220	6,696							
- Seven years later	5,519								
Estimate of cumulative claims	5,519	6,696	6,448	6,074	7,628	7,755	9,917	11,460	61,497
Cumulative payments	5,516	6,536	6,323	5,562	7,044	6,618	8,381	4,599	50,579
Estimate of claims reserves	3	160	125	512	584	1,137	1,536	6,861	10,918
Indirect claims expenses	2	43	40	119	162	295	435	788	1,884
Current estimate of accumulated claim liabilities	5	203	165	631	746	1,432	1,971	7,649	12,802
Estimated claims for prior accident years									22
Provision for adverse deviation									1,007
Net provision for insurance claims (note 15)									13,831

	Accident year 2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
At 31 December 2018									
Estimate of cumulative claims:									
At end of accident year	18,665	21,087	24,099	21,146	16,858	25,202	14,264	12,239	
- One year later	18,053	20,254	23,626	20,803	17,344	9,937	6,945		
- Two years later	17,693	20,484	24,068	20,816	11,387	7,706			
- Three years later	17,723	20,378	23,931	10,791	6,184				
- Four years later	17,724	18,764	8,602	6,282					
- Five years later	16,505	6,835	6,162						
- Six years later	6,632	5,220							
- Seven years later	4,447								
Estimate of cumulative claims	4,447	5,220	6,162	6,282	6,184	7,706	6,945	12,239	55,185
Cumulative payments	4,443	5,193	6,041	6,010	5,641	6,680	5,559	4,634	44,201
Estimate of claims reserves	4	27	121	272	543	1,026	1,386	7,605	10,984
Indirect claims expenses	1	15	72	124	181	327	563	776	2,059
Current estimate of accumulated claim liabilities	5	42	193	396	724	1,353	1,949	8,381	13,043
Estimated claims for prior accident years									360
Provision for adverse deviation									1,109
Net provision for insurance claims (note 15)									14,512

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).

This is the first set of the Company's annual financial statements in which FRS 116 *Leases* has been applied. The related changes to significant accounting policies are described in note 2.5.

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 17 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 18 at all times. Assets held in the insurance fund may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 and the Company continues to be able to meet the solvency requirements of Section 18. 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, 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 4 – critical accounting estimates and judgements in applying accounting policies

Changes in accounting policies

New standards and amendments

The Company has applied FRS 116 *Leases* for the first time for the annual period beginning on 1 January 2019.

The application of FRS 116 does not have a material effect on the financial statements.

FRS 116 *Leases*

The Company applied FRS 116 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under FRS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in FRS 116 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under INT FRS 104 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in FRS 116.

On transition to FRS 116, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied FRS 116 only to contracts that were previously identified as leases. Contracts that were not identified as leases under FRS 17 and INT FRS 104 were not reassessed for whether there is a lease under FRS 116. Therefore, the definition of a lease under FRS 116 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Company leases many assets including office premise and office equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under FRS 116, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under FRS 17

Previously, the Company classified office premise leases as operating leases under FRS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the respective lessee entities incremental borrowing rates applicable to the leases as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Company applied this approach to all leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

- The Company used a number of practical expedients when applying FRS 116 to leases previously classified as operating leases under FRS 17.

In particular, the Company:
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on financial statements

Impact on transition*

On transition to FRS 116, the Company recognised additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 January 2019 $'000
Right-of-use assets – property, plant and equipment	1,930
Lease liabilities	1,930

* For the impact of FRS 116 on profit or loss for the period, see Note 25. For the details of accounting policies under FRS 116 and FRS 17, see Note 3.16.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4% – 4.5%.

	1 January 2019 $'000
Operating lease commitments at 31 December 2018 as disclosed under FRS 17 in the Company's financial statements	2,032
Discounted using the incremental borrowing rate at 1 January 2019	1,930
Lease liabilities recognised at 1 January 2019	1,930

For more Information:
Please refer to
a) https://www.acra.gov.sg/how-to-guides/buying-information/business-profile
b) https://www.mas.gov.sg/statistics/insurance-statistics/insurance-company-returns/I846G