Etiqa Insurance Pte. Ltd.

Co. Reg. No. 201331905K

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The following supplementary information does not form part of the audited statutory financial statements of the company

This supplementary information has been prepared to fulfill the requirements of the Monetary Authority of Singapore ("MAS") Notice 124 "Public Disclosure Requirements" for the financial year ended 31 December 2019. For further information (otherwise stated), please refer to the annual audited financial statements for the year ended 31 December 2019.

Corporate Information

Etiqa Insurance Pte. Ltd. (the "Company") is a private limited company, incorporated and domiciled in Singapore. On 13 June 2014, the Company was granted license by MAS to carry on life and general insurance business in Singapore.

The principal activity of the Company in financial year ended 31 December 2019 consists of underwriting life and general insurance business. The major types of insurance written by the Company include endowment, whole life, motor, fire and marine cargo products.

Business Objectives

The Company's key strategic priorities are:

- Humanising customer experience through enhancing the customer experience with excellent service and innovative products offering that meet their needs;
- Efficient distribution by strengthening our relationship with key business partners and expanding distribution networks
- Ensuring sustainable growth in market share and profitability.

Regulatory Environment

The Company is required to comply with the Singapore Insurance Act and Regulations where applicable. The MAS has set certain guidelines for the management of insurance funds. The MAS not only prescribes approval and monitoring of activities but also imposes certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise. The MAS also conducts regular compliance audits.

Corporate Governance

The Corporate Governance Framework of the Company outlines the key roles and responsibilities of the Board of Directors, as well as the sub-board committees that have been established to assist the Board of Directors in executing their tasks[1]. This framework ensures that good corporate governance standards are maintained at all times.

[1] No Nomination and Remuneration Committee has been established and the function remains to be assumed by the Board.

- The **Board of Directors ("Board")** is the ultimate decision-making body for all business activities, including governance and appointment of Directors.
- In addition, the Board ensures that the Company adopts the Group's core values and proper standards so as to operate with integrity and comply with relevant rules and regulations. The Board meets at least on a quarterly basis.
- The **Risk Management Committee ("RMC")** assists the Board in fulfilling its supervision and monitoring responsibilities related to internal control. This includes monitoring the risk profile of the legal entities compared to the targeted level of risk appetite set by the Board. This is chaired by an independent director and is held at least on a quarterly basis.
- The **Investment Committee ("IC")** is a governance body carrying an oversight function for all investment related activities. This meeting is chaired by an executive or non-executive director and is held at least on a quarterly basis.
- The **Audit Committee of the Board ("ACB")** assists the Board in fulfilling its supervision and monitoring responsibilities related to internal and external audit. This is chaired by an independent director and is held at least on a quarterly basis.

Enterprise Risk Management Framework

The Company has established an Enterprise Risk Management ("ERM") framework with clear terms of reference and responsibility for developing company-wide policies on enterprise, financial, operational and insurance risks. This includes setting the risk taking philosophy, risk governance structure, risk limit management techniques, risk classification, measurement, and management standards.

The ERM framework is set up to ensure all significant risks are identified, assessed, monitored and managed in accordance with the interests of shareholder and policyholders, and is intended to guide business conduct within the Company. The key components of the risk management approach include:

(i) Clear risk appetite and business strategy

The Company transacts insurance business, the nature of which involves risk taking and is intrinsic to how it creates value for its customers and shareholders. At all times, the execution of business strategy is kept within the Company's risk tolerance levels to ensure that the Company delivers sustainable growth in shareholder's value and the risk of insolvency is controlled. A clear business strategy is required together with explicit statements of which risks or events are tolerable or to be avoided at all times. The Company's risk appetite is controlled by having consistent limits and policies in place for all relevant risks.

(ii) Comprehensive risk management cycle

All key risks are identified and appropriately managed. Key risk indicators are used to track the most important developments against benchmarked limits including risk appetite and limit or other relevant elements. The Company's business strategies are to balance appropriate levels of risk, achieving the desired level of reward while maintaining sound financial position and capital. Essentially, the management of risk involves the establishment of risk principles and strategies in driving risk management practices and processes incorporated in all processes and activities of the Company.

(iii) Strong risk culture

The ERM framework describes the risk management process and the control procedures necessary to ensure risk management is effectively carried out. Monitoring is accomplished through ongoing management activities, separate evaluations, or both. The internal environment and business conduct targets high ethical values to ensure that all employees are risk aware, actively identify risk and control risks and are transparent in respect of risk taking. Clear responsibilities and accountabilities are the cornerstone for good risk management and good governance in general.

The Board of Directors of the Company has endorsed the Company's ERM framework and assumes overall responsibility for overseeing the Company's risk taking activities and risk management policies.

The Company continuously enhances its integrated risk management approach towards the effective management of company-wide policies on strategic, product, market, credit and operational risks.

Risk Management Practice and Process

The Risk Management practices and processes are vital components of risk principles prescribed by the Company. To safeguard a comprehensive approach to risk management whilst supporting the risk principles established for the Company, the risk management practices and processes are needed to enable the Company to systematically identify, measure, control, monitor, and report risk exposures throughout the Company. Diagram 2 below illustrates the Risk Management Process.

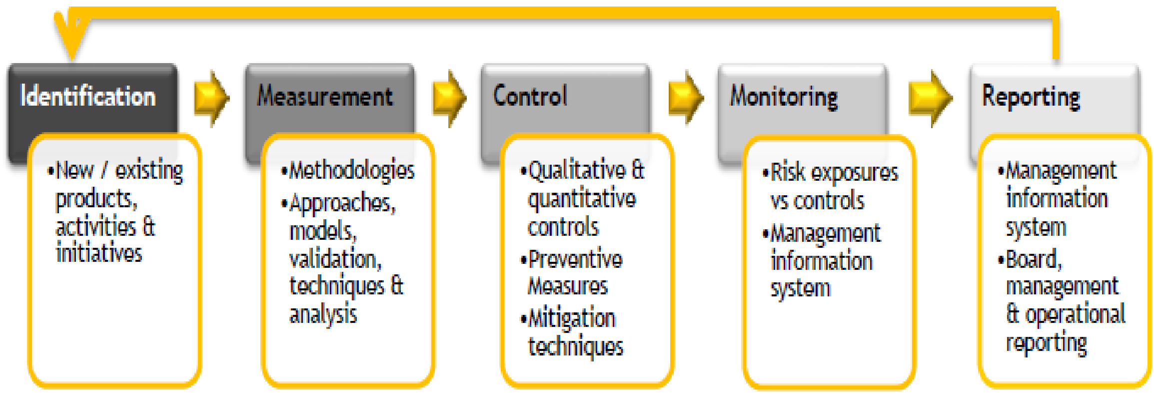

Diagram 2

Financial risk

We hold assets to back our liabilities under our insurance contracts. Financial risk arises when the market values of assets and liabilities do not move consistently in adverse market situations, and as a result, proceeds from the financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Asset Liability Management ("ALM") practices are adopted to ensure business decisions and actions taken with respect to assets and liabilities are coordinated, subject to the Company's risk tolerance and capital resources.

Exposure to different asset classes and issuers are monitored and corresponding risk limits are set to ensure that the Company's financial risk exposures are within the allowable risk tolerance thereby limiting potential losses to an acceptable level.

Strategic asset allocation for each insurance fund is defined in order to ensure the objectives of the fund are being met, given the Company's risk-taking capacity. This is reviewed annually to ensure its relevance in light of evolving market conditions and any new developments in the Company.

Stress tests are also conducted to measure the impact of changes in market variables on the Company's solvency and earnings to ensure that the Company's financial risk exposure is within the Company's risk appetite.

Management Risk Committee and Asset Liability Committee meetings are held on a quarterly basis to monitor and control the implementation of the risk management policies as well as to discuss the Company's risk profile, the exposure against the risk limits and any matters rising from risk and ALM perspectives.

Insurance Risk

Insurance risk relates to the inherent risks associated with the underwriting activities of life and general insurance business. Such risks include pricing, reserving, underwriting and reinsurance risks. Actuarial analyses are performed to manage pricing, underwriting and reserving risks by evaluating trends before benefits and claims become due for payment.

The Company has established appropriate guidelines and framework combined with authority limits as part of risk mitigation activities embedded in the business operations.

(i) Concentrations of risk may arise when a particular event or a series of events impacts heavily upon the Company's insurance contract liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Almost all of the Company business is derived from Singapore, with a small proportion from Malaysia, and accordingly a geographical analysis by country is not relevant to the Company.

The table below shows the concentration of actuarial liabilities by type of contract.

	Gross SGD'000	**Reinsurance** SGD'000	**Net** SGD'000
2019			
Endowment	694,702	(34)	694,668
Whole life	263,668	(1,839)	261,829
Mortgage	1	(1)	–
Term assurance	149	(25)	124
Others	258	(17)	241
Total	958,778	(1,916)	956,862
2018			
Endowment	522,120	(72)	522,048
Whole life	122,901	(928)	121,973
Mortgage	-	-	-
Term assurance	101	(21)	80
Others	202	(11)	191
Total	645,324	(1,032)	644,292

	Gross SGD'000	**Reinsurance** SGD'000	**Net** SGD'000
2019			
Motor	12,309	(449)	11,860
Fire	20,136	(10,940)	9,196
Marine Hull & Cargo	1,869	(833)	1,036
Bonds	5,163	(1,968)	3,195
Workmen Compensation	14,200	(866)	13,334
Miscellaneous	12,511	(3,049)	9,462
Total	66,188	(18,105)	48,083
2018			
Motor	9,273	(566)	8,707
Fire	21,614	(12,193)	9,421
Marine Hull & Cargo	1,192	(490)	702
Bonds	9,020	(6,864)	2,156
Workmen Compensation	13,541	(1,259)	12,282
Miscellaneous	11,101	(2,782)	8,319
Total	65,741	(24,154)	41,587

(ii) *Key assumptions – Life Insurance*

Material judgement is required in setting the assumptions used in the insurance liabilities where there is insufficient experience of the Company. Assumptions in use are based on the Company's own experience (for the expense assumption), industry benchmarks and external market indices which reflect both the risk profile unique to the Company as well as the current observable market prices and trends. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for potentially favourable trends in the future. Assumptions are reviewed on a periodic basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive to are as follows:

<u>Discount rate</u>

For non-participating policies and guaranteed benefits of participating policies denominated in SGD, the discount rate is based on:

a) Market yield of Singapore government securities of a matching duration up to year 15;
b) Linear interpolation between year 15 and 20; and
c) Long term risk-free rate from year 20 onwards.

For universal life policies denominated in USD, the discount rate is based on three-segment approach:

a) Observable market yields of US treasury zero coupon bonds up to year 30;
b) Ultimate forward Rate from year 60 onwards; and
c) Linear Extrapolation between Year 30 and Year 60.

<u>Mortality and morbidity rates</u>

Mortality and morbidity rates represent the expected claims experience of the Company.

The Company bases mortality and morbidity on local established industry tables and reinsurance premium rates, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets.

<u>Lapse and surrender rates</u>

Lapse and surrender rates are used to determine the expected persistency of the business. These rates are based on industry experience.

<u>Expenses</u>

Expense assumptions represent the expected amount that will be spent on the business. For best estimate assumptions, both current expense levels and the expected expense inflation have been taken into consideration.

<u>Sensitivities</u>

The analysis below is performed for reasonably possible movements in key assumptions affecting the determination of insurance liabilities with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity.

To demonstrate the impact, shocks in each of the assumptions are performed and analysed individually. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities**	Impact on profit before tax	Impact on equity
		Increase		Decrease	
	%	SGD'000	SGD'000	SGD'000	SGD'000
2019					
Discount rate*	- 1	6,693	6,482	(6,482)	(5,380)
Mortality and morbidity rates	+/- 10 (adverse)	1,823	3,117	(3,117)	(2,587)
Lapse and surrender rates	+/- 10 (adverse)	4,082	4,937	(4,937)	(4,098)
Expenses	+ 10	4,869	4,866	(4,866)	(4,039)
2018					
Discount rate*	- 1	3,150	2,829	(2,829)	(2,348)
Mortality and morbidity rates	+/- 10 (adverse)	1,748	1,401	(1,401)	(1,163)
Lapse and surrender rates	+/- 10 (adverse)	3,661	3,604	(3,604)	(2,991)
Expenses	+ 10	2,794	2,757	(2,757)	(2,288)

* Excludes impact on fixed income assets.

** The impact on net liabilities results has a corresponding impact of opposite figure on surplus arising.

(iii) *Key assumptions – General Insurance*

Estimation process

The claims provision estimation process involves estimation of reserve of outstanding reported claims (case reserves), and estimation of additional reserves for incurred but not reported ("IBNR") claims and expected future movements in the estimated ultimate liabilities associated with outstanding reported claims ("IBNER" - incurred but not enough reported). Case reserves are set and periodically reviewed by the claims department. IBNR and IBNER reserves are determined based on the Certifying Actuary's assessment. The total claims liabilities are subject to a quarterly actuarial review and at year end a formal actuarial report will be provided on the adequacy of the booked reserves.

In forming their view on the adequacy of the claims provisions, actuaries use a variety of statistical projection techniques like the Chain Ladder and Bornhuetter-Ferguson methods. Claims provisions are separately analysed by class of business. The claims provisions are intended to provide a 75% level of assurance of adequacy, and as such include a provision for adverse deviation ("PAD") beyond the expected value (best estimate) of the claims liabilities. The best estimates for premium liabilities have been determined such that the total liability provision would be adequate to pay for future claims and expenses in servicing the unexpired policies as of the valuation date. In calculating these premium liabilities for the various classes, the ultimate incurred loss of the individual class for the latest accident year is used to determine a suitable ultimate loss ratio. The results were used in this case to derive the premium liabilities.
No discounting is made to the recommended claim liability and premium liability provisions to allow for possible future investment earnings. In addition, no explicit inflation adjustment has been made to claim amount payable in future. This inflation is, however, implicitly allowed for in our valuation method, where past inflation patterns are assumed to continue into the projected future years. Given the relatively short run-off periods and the low

prevailing interest rate environment, any discounting made is unlikely to result in any material impact.

Assumption of claim liabilities

The principal assumption underlying the actuarial estimate of the claims liabilities is that the past claims development experience of the Company is indicative of likely future claims development, both in terms of expected amounts and variability around those expected amounts. In estimating the required claims provisions, actuaries also consider business strategy, trends in claims frequency and severity, rate of settlement, and the impact of changes in the underwriting and claims handling policies of the Company, as well as the impact of external factors such as market practice, judicial decisions and government legislation. There is typically a lot of judgement involved in estimating the claims liabilities.

Sensitivities

There is uncertainty inherent in the estimation process as the actual amount of ultimate claims can only be ascertained once all claims are closed. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its contracts and is summarised as follows:

	Change in assumptions %	**Impact on gross liabilities** SGD'000	**Impact on net liabilities** SGD'000	**Impact on profit before tax** SGD'000	**Impact on equity** SGD'000
2019					
Net incurred claim ratio	+ 5%	3,230	2,199	(2,199)	(1,825)
	- 5%	(3,230)	(2,199)	2,199	1,825
2018					
Net incurred claim ratio	+ 5%	3,018	1,929	(1,929)	(1,601)
	- 5%	(3,018)	(1,929)	1,929	1,601

Claim Development Table

Reproduced below is an exhibit that shows the development of claims including both notified and IBNR claims over a period of time on a net and gross basis. The disclosure on claims development aims to compare the results of past valuations to the actual claims developed. This is useful to evaluate actual claims development against that assumed in past projections, however, it should be noted that the projected liabilities may not be consistently close to actual liabilities every year due to the random nature of claim incidence and amount. Hence, this comparison should not be used to evaluate past projections for accuracy.

Analysis of claims development – <u>Gross of reinsurance</u> (in SGD'000)

	As at 31 December								
	Before 2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	S$	S$	S$	S$	S$	S$	S$	S$	S$
Estimate of cumulative claims:									
At end of accident year	23,321	22,528	24,274	31,508	39,603	30,964	31,914	43,438	
One year later	26,673	20,438	24,996	31,473	36,102	30,622	31,443		
Two years later	18,545	19,019	23,306	30,143	32,322	28,261			
Three years later	16,200	17,092	22,389	27,149	30,559				
Four years later	15,017	16,293	21,166	27,262					
Five years later	15,244	15,952	21,016						
Six years later	14,066	15,904							
Seven years later	14,632								
Estimate of cumulative claims	14,632	15,904	21,016	27,262	30,559	28,261	31,443	43,438	212,515
Cumulative payments to-date	14,617	15,577	20,681	27,049	28,970	25,109	23,822	20,450	176,275
Gross outstanding claims liabilities	15	327	335	213	1,589	3,152	7,621	22,988	36,240
Provision for prior accident years									173
Unallocated loss adjustment expenses									993
Central Estimate of outstanding Claim Liability									37,406
Provision for adverse deviation									4,873
Total gross claims liabilities									42,279

Analysis of claims development – <u>Net of reinsurance</u> (in SGD'000)

	As at 31 December								
	Before 2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	S$	S$	S$	S$	S$	S$	S$	S$	S$
Estimate of cumulative claims:									
At end of accident year	21,511	21,038	20,883	25,840	25,056	23,655	25,155	26,428	
One year later	19,283	19,425	20,015	24,809	26,779	24,432	24,346		
Two years later	17,095	18,181	19,012	23,617	25,376	22,929			
Three years later	14,834	16,467	17,459	20,473	24,182				
Four years later	13,897	15,159	16,643	20,373					
Five years later	13,608	15,203	16,494						
Six years later	13,174	15,156							
Seven years later	13,555								
Estimate of cumulative claims	13,555	15,156	16,494	20,373	24,182	22,929	24,346	26,428	163,463
Cumulative payments to-date	13,538	14,828	16,159	20,212	22,846	20,349	18,391	8,902	135,225
Gross outstanding claims liabilities	17	328	335	161	1,336	2,580	5,955	17,526	28,238
Provision for prior accident years									172
Unallocated loss adjustment expenses									993
Central Estimate of outstanding Claim Liability									29,403
Provision for adverse deviation									3,433
Total net claims liabilities									32,836

Use of Reinsurance

Reinsurance offers financial protection to insurers against large and catastrophic events. The Company enters into reinsurance arrangements under which the Company is compensated for losses on one or more contracts issued by the Company. Reinsurance contracts that meet the definition of insurance contracts are classified as reinsurance contracts held. The Company employs proportional reinsurance arrangements to manage life insurance risk with a maximum retention limit for any single life insured that is set according to the reinsurance management strategy. To manage general reinsurance risk, the Company entered into proportional reinsurance arrangements such as quota share and surplus treaties to cover various classes such as Fire, Engineering and etc. The Company also entered into non-proportional treaties such as excess of loss cover for most general insurance business class.

Capital Management and Capital Adequacy

The Company's source of funding is from its immediate holding company. The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the MAS;
- to safeguard the Company's ability to continue as a going concern so that it can continue to protect policyholders; and
- to provide an adequate return to holding company by pricing insurance contracts that commensurate with the level of risk.

The Company is required to satisfy the Fund Solvency and Capital Adequacy Requirements as prescribed under the Singapore Insurance Act (Chapter 142). Under the Risk-based Capital Framework regulation set by Monetary Authority of Singapore (MAS), insurance companies are required to satisfy a minimum capital adequacy ratio (CAR) of 100% with a financial resource warning event of 120%. The Company monitors its capital level on a regular basis to assess whether such requirements have been met, and reports to the MAS its fund solvency position at each quarter as well as annually. In addition, MAS may direct different capital adequacy requirements for different insurers from time to time. The Company has an audited CAR in excess of the current requirement as at 31 December 2019. The audited CAR of the Company will be available in the Company's audited Annual Return on the MAS website[i].

In addition to satisfying regulatory capital requirements, the Company also conducts stress tests on the projected solvency position of the Company to ensure that the management understands the risks to solvency that the Company is facing and plans for risk mitigation actions where necessary.

Investment Management

(i) Investment Objectives

The investment objective is to achieve an adequate investment return to satisfy future liabilities and to optimise the risk/returns characteristics of the company's investment assets whilst maintaining compliance, at all time, with the regulatory requirement of the MAS.

(ii) Policies and Processes

The Investment Policy ("the Policy") provides the principles and requirements to be applied in the management of investments, ensuring that the interests and rights of policy owners and shareholders are not compromised. The policy also sets out the scope, responsibilities and guiding principles for investment management activities by the Investment Management Team.

As the Company is a licensed insurer, all investment activities will be/are carried out prudently to ensure continued stability and consistency. Specific to the Participating Fund, the overall investment objectives ensures that the fund is able to meet the guaranteed liabilities with a high confidence and to invest assets supporting the non-guaranteed liabilities, such as providing stable medium to long term returns to the policyholders.

The Board provides the final approval of the Strategic Asset Allocation (SAA), the Investment strategy and the Investment Policy. The Board, through its Investment Committee exercises its oversight on all investment activities of the Company.

(iii) Investment Portfolio Summary

The company has invested in listed equities, government bonds, corporate bonds and deposits. All corporate bonds held by the company are at least rated as investment grade (BBB- by S&P or Fitch or Baa3 by Moody's).

(iv) Valuation of Investment

For quoted equity instruments, fair value is based on the exchange's official closing while for quoted debt securities, fair value is determined by direct reference to their bid price quotations in an active market at the end of the reporting date.

(v) Sensitivity to Market Variables

The Company's investments are exposed to a variety of financial risks, including the effects of changes in equity market prices and interest rates. For further information concerning the level of sensitivity to market variables associated with the Company's asset portfolio, please refer to the Company's annual financial statements.

Financial Performance

For internal management reporting purpose, the Company monitors the financial performance via the different insurance funds. For further information on the financial performance of the various insurance funds, please refer to the Company's annual financial statements and Form 2 of the annual regulatory returns (that will be made available on the MAS website).

The returns of investment assets and components of such returns are available on the financial statements under Note 7, 19, 20 and 21.

Pricing adequacy

All new products are priced in line with the Product Approval and Review Guidelines to ensure adequate pricing considerations, recognition of all relevant risks and the profitability criteria being met.

All in-force products will be reviewed annually by the product development committee. The purpose of the review is to ensure all products continue to meet the appropriate criteria for profitability in light of current experience.

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[i] https://www.mas.gov.sg/Statistics/Insurance-Statistics/Insurance-Company-Returns.aspx