ERGO

Solvency and Financial Condition Report 2020

ERGO Insurance NV/SA

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EXECUTIVE SUMMARY

ERGO Insurance NV/SA (hereafter the “company”) is part of the ERGO Group that in turn is part of the Munich Re Group. The company provides life insurance products with a focus on pension savings and long term savings.

This document is the Solvency and Financial Condition Report (“SFCR”) of ERGO Insurance NV/SA. Munich Re prepares a consolidated SFCR at Group level. The published report for the 2020 financial year can be found at www.munichre.com/en/ir/result-center/index.html.

The purpose of this report is to assist policyholders and other stakeholders to understand the solvency and financial position of ERGO Insurance NV/SA as at 31 December 2020 (i.e. reporting period is 1 January 2020 to 31 December 2020). Data contained in this report are subject to data quality monitoring performed in accordance with requirements expressed in the company’s Data Quality Policy.

Section A - Business and Performance

The company’s mission is to protect pension savings and financial health of existing customers for the full duration of their contracts.

After announcing the New Strategic Plan (also referred to as the ‘New Strategy’) to terminate the underwriting of new policies and focus on fully serving existing customers from 1 July 2017, our customers can expect a reliable and efficient service by empowered and risk aware employees working in a financially stable company.

After a formal closure of the New Strategic Plan programme mode in Q4 2019, the ongoing projects which were taken up within company’s normal project governance were successfully finalised in course of 2020.

In December 2020, following the announcement of the "Munich Re Group Ambition 2025" ERGO Insurance NV/SA aligned its strategic statements with all Munich Re Group entities along the dimensions of "Scale – Shape – Succeed":

- “Scale” is about pooling our strengths in our core business field over the next years. Thus, we will boost our efficiency.
- “Shape” refers to us wanting to be creators and innovators within the insurance sector. We want to focus on digitalising our business and using modern technologies in servicing our customers.
- Succeed” underscores how to achieve lasting success for all of our stakeholders: shareholders, customers and employees.

The Management of the company monitors the evolution of its portfolios as well as the financial bearing capacity and the risk situation of the company. Despite the COVID-19 outbreak, the Solvency II ratio, defined as the ratio between Own Funds and Solvency Capital Requirement (SCR[1]), at year-end 2020 is established at 238%, compared to 259% at year-end 2019.

Underwriting performance

The underwriting performance is based on the premiums the company receives, the claims it has to pay-out and the different expenses it incurs in order to administer and commercialize policies.

During 2020, the following key developments occurred:

[1] The Solvency Capital Requirement (SCR) is a level of financial resources that enables insurers to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due. The SCR is calculated using the Standard Formula as defined by the Solvency II regulation (EIOPA Directive 2009/138/EC).

- **Gross Written Premium**: Overall, there was a 12% (34,3 Ml €) decline in the total Gross Written Premiums 2020 (from 297,2 Ml € in 2019 to 262,9 Ml € in 2020).
- **Claims:** The overall claims incurred increased by 7% (20,8 Ml €). The main driver of this increase was the provision for outstanding claims, which has increased by 12 Ml €, compared to a decrease by -7 Ml € in 2019.
- **Expenses:** Personnel and general expenses for ERGO Insurance NV/SA (incl. ERGO Partners NV/SA) are established at 41,4 Ml € in 2020, compared to 47,2 Ml € in 2019. The total expenses before cost allocation are 5,8 Ml € lower compared to 2019.

Investment performance

The net income from investments (in BEGAAP values) increased from 86 Ml € in 2019 to 90 Ml € in 2020, mainly driven by an increase in the extraordinary investment result from -5,7 Ml € in 2019 to 0,6 Ml € in 2020. This is explained by an impairment of 6 Ml € recorded in the special fund MEAG ERGO Belgium Equities in 2019.

Section B – System of Governance

The most important governing bodies in the System of Governance include: the Board of Directors; Audit and Risk Committee; the Nomination and Remuneration Committee, and the Management Committee.

During 2020, the onboarding of new Management Committee members reinforced the culture for sound risk management within ERGO Insurance NV/SA. The management of Independent Control Functions remained largely unchanged, providing stability in actuarial controlling, risk and compliance controlling and audit oversight.

The company's risk management system is built to identify, assess and measure, steer as well as monitor and report risks. Continued focus remained on ensuring effective governance and further embedding an appropriate risk culture across the company, in line with the risk appetite set by the Board of Directors.

Section C - Risk Profile

The Risk Profile of the company provides at a given point in time a view on all the risks to which the company is exposed to, for instance:

- Market risk: As is typical for a life insurance company, market risk is the major risk contributor to the company's Risk Profile. Market risk is the risk of a loss that may be caused by fluctuations in the prices of the financial instruments in a portfolio. The various risk factors are the interest rate, credit spreads, exchange rates, share prices or property prices. Movements in these various elements form the foundation of market risk. In 2020, the market volatility observed in 2020 following the COVID-19 outbreak therefore first led to a decrease, and later in the year to an increase, in equity risk. Interest rate risk stayed low, partly related to the still very low interest rates by Q4 2020 (even lower than one year ago). The beneficial interest rate risk position is also the result of a sound asset-liability matching.
- Underwriting risk: As is typical for an insurance company, underwriting risk represents the potential loss arising from entering into or underwriting insurance policies. Because of ERGO insurance NV/SA's business model and activities, its main underwriting risks are life risk and to a lesser extent health risk. In 2020, the decrease of interest rates led to a higher underwriting risk.
- Operational Risk: It is defined as the risk of loss caused by failed people, processes, systems, or external drivers. The exposure continued to decrease in 2020 compared to 2019, notably driven by constant reinforcement of control activities in Operations, the continued effort on the developments of system functionalities to automate processes, the improvement of processes and technical documentation and the development of a sound cyber security risk management framework .

The Risk Management Function maintains a comprehensive record of all risks on which it reports to the Management on a quarterly basis, pointing out new emerging risks, measuring progress on the mitigation actions and analysing behaviour of Key Risk Indicators to ensure the management has at all times an accurate insight on its risk profile to enable corrective steering if needed.

The exposure of ERGO Insurance NV/SA to COVID-19 is considered as very low and is monitored diligently by the Crisis & Emergency Management Committee. All required preventive measures were taken to protect the physical integrity of all employees.

Section D - Valuation for Solvency Purposes

The company's economic balance sheet, like that of other insurers, comprises assets, technical provisions and other liabilities. Technical provisions are reserves for claims and premiums plus a risk margin. Assets, technical provisions and other liabilities are valued on a 'fair value' basis according to Solvency II requirements, meaning that the company's financial strength is sensitive to market movements in terms of value.

The Solvency II technical provisions are defined as the sum of the Best Estimate Liabilities (BEL) and the Risk Margin. In 2020, the total technical provisions increased to 5,9 Bl € from 5,5 Bl € in 2019, mainly due to the lower interest rates. The increase of the risk margin is also largely linked to the interest rate development.

Section E - Capital management

The current capital management plan primarily aims to maintain the company's financial bearing capacity by having a strong solvency position that aims to assure, at all times, that the company can respect minimum regulatory requirements and capital requirements. The primary focus in 2020 was to maintain the attained position since year end 2019, despite the outbreak of COVID-19.

Nevertheless, where possible, measures were taken for further optimisation in the company's capital management. Relying on its strong financial bearing capacity and on a high solvency II ratio, the company obtained the exemption to further accrue its 'flashing light reserves[2]' for 2020.

The company's Solvency II coverage ratios

Measures and decisions taken by the company in the past were the main drivers to sustain the financial stability of the company:

- Solvency II coverage ratios at year end 2020: **238% of the SCR and 619% of the MCR**[3] (with volatility adjustment)
- Solvency II coverage ratios at year end 2019: **259% of the SCR and 670% of the MCR** (with volatility adjustment)
- Solvency II coverage ratios at year end 2020: **224% of the SCR and 568% of the MCR** (without volatility adjustment)
- Solvency II coverage ratios at year end 2019: **243% of the SCR and 618% of the MCR** (without volatility adjustment).

[2] Flashing light reserves are additional provisions that can be required by the Belgian regulator to be set up, to cover the interest rate risk associated with insurance contracts with a guaranteed interest rate (NBB circular 2016/39).

[3] The Minimum Capital Requirement (MCR) is a minimum level of security (lower than the SCR) below which the amount of insurers' financial resources should not fall, otherwise supervisory authorities may withdraw authorisation (EIOPA Directive 2009/138/EC).

The amount of the **Solvency Capital Requirement (SCR)** and the eligible amount of Own Funds to cover the SCR are classified by Tiers as illustrated in Table 1 below:

Item	With VA	Without VA
Eligible Own Funds to meet SCR	*757,4*	*716,8*
Tier 1	*598,3*	*556,5*
Tier 2 (capped)	*159,1*	*160,3*
Tier 3	*0,0*	*0,0*
SCR	*318,3*	*320,6*

Table 1: SCR and eligible Own Funds by tiers in Ml €

The amount of the **Minimum Capital Requirement (MCR)** and the eligible amount of basic Own Funds to cover the MCR are also classified by tiers as illustrated in the Table 2 below:

Item	With VA	Without VA
Eligible basic Own Funds to meet MCR	*618,2*	*576,8*
Tier 1	598,3	556,5
Tier 2 (capped)	*20,0*	*20,3*
Tier 3	*0,0*	*0,0*
MCR	*99,9*	*101,6*

Table 2: MCR and basic Own Funds by tiers in Ml €

ERGO Insurance NV/SA applies a frequent monitoring of the developments of the COVID-19 crisis on its capital position in line with NBB's expectations. The manageable drop in the Solvency II ratio over 2020 was essentially the result of the further decrease in interest rates.

The company also performs an annual extensive and in-depth analysis of its solvency position and capital management implications in its Own Risk and Solvency Assessment (ORSA) report.