Solvency and Financial Condition Report 2021

ERGO Insurance NV/SA

Content:	Solvency and Financial Condition Report 2021
Version:	1.0
Status:	Final
Reporting period:	01/01/2021 – 31/12/2021
Valid from:	24/03/2022
Report Owner:	Risk Governance and Reporting
Reviewed by:	Management Committee, 11/03/2022 Audit and Risk Committee, 24/03/2022
Authorized by :	Board of Directors, 24/03/2022
Level of obligation:	ERGO Insurance NV/SA

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 2021 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 2021 (i.e. reporting period is 1 January 2021 to 31 December 2021). 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 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.

In September 2021, the Board of Directors of ERGO Insurance NV/SA formally approved the new version of its Business Strategy which follows the Business Strategy of ERGO International AG and ERGO Group AG applicable to all its subsidiaries.

The strategic statements of ERGO Insurance NV/SA were also aligned with all Munich Re Group entities along the dimensions of "Scale – Shape – Succeed":

- Scale: Intends to reach the objectives as envisaged in the run-off strategy. The most important levers are the risk-oriented management of the existing portfolio and the continuation of cost discipline and increase in process efficiency.

- Shape: Aims to be creator and innovator within the insurance sector. We want to focus on the harmonization of platforms and introduction of digital technologies and the leveraging transnational synergies in different areas.

- Succeed: underscores how to achieve lasting success for all stakeholders: shareholders, customers, employees, and communities.

As part of the updated groupwide strategy, Munich Re and ERGO Group have expressed their ambitions in terms of sustainability with a related group-wide project. Amongst others, Munich Re and ERGO Group joined the Net-Zero Asset Owner Alliance. Together with DKV Belgium NV/SA, ERGO Insurance NV/SA has also started initiatives in this direction in Belgium, aligned with the groupwide approach. This covers sustainability, in terms of impact on the product portfolio, on the investments made, and on the working as a company.

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. The Solvency II ratio, defined as the ratio between Own Funds and Solvency Capital Requirement (SCR[1]), at year-end 2021 is established at 220%, compared to 238% at year-end 2020.

[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).

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 2021, the following key developments occurred:

- **Gross Written Premium**: Overall, there was a 8% (22,2 Ml €) decline in the total Gross Written Premiums 2021 (from 262,9 Ml € in 2020 to 240,7 Ml € in 2021).

- **Claims:** The overall claims incurred increased by 7% (22,4 Ml €). The main driver of this increase was the paid surrenders of +18,3 Ml €, mainly related to single premium contracts in the Universal Life segment after a period of 8 years.

- **Expenses:** Total expenses before cost allocation were 1,3 Ml € lower compared to 2020. In addition, commissions reduced by 16% in 2021.

Investment performance

The net income from investments (in BEGAAP values) decreased from 90,1 Ml € to 79,5 Ml € in comparison to 2020, mainly explained by a change in the unit-linked retrocessions reporting methodology. Until 2020 the unit-linked retrocessions were posted and reported as investment result. Since 2021 these retrocessions are recorded as other underwriting result, which explains a decrease by 7,0 Ml € in comparison to 2020.

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 2021, the Management Committee continued to reinforce 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. The equity risk increased strongly in 2021, which is mainly due to the strong positive performance on the equity markets and to the implementation of changes to the asset strategy which led, as planned, to direct equity risk exposure. Interest rate risk remained low but somewhat increased in 2021, which is related to the higher interest rate levels. The persisting low interest rate position is partially the result of a good 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 2021, the increase of interest rates led to a lower underwriting risk.

- Operational Risk: It is defined as the risk of loss caused by failed people, processes, systems, or external drivers. The exposure remained stable at 'low' compared to 2020 following continued efforts to reinforce control activities in operations, the successful developments of system functionalities to automate processes, actions taken to manage legacy risks and the ongoing initiatives taken to increase cyber security maturity.

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.

During 2021, the Crisis and Emergency Management Committee continued to monitor the developments related to the Covid-19 outbreak, ensuring continuous management of the situation without endangering business continuity.

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 2021, the total technical provisions decreased to 5,7 Bl € from 5,9 Bl € in 2020, mainly due to the higher interest rates. The decrease 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 2021 was to maintain the attained position since year end 2020.

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 2021.

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:

[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).

- Solvency II coverage ratios at year end 2021: **220% of the SCR and 667% of the MCR**[3] (with volatility adjustment[4])
- Solvency II coverage ratios at year end 2020: **238% of the SCR and 619% of the MCR** (with volatility adjustment)
- Solvency II coverage ratios at year end 2021: **218% of the SCR and 657% of the MCR** (without volatility adjustment)
- Solvency II coverage ratios at year end 2020: **224% of the SCR and 568% of the MCR** (without volatility adjustment)

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	777,4	*763,7*
Tier 1	607,2	*593,6*
Tier 2 (capped)	*170,1*	*170,1*
Tier 3	*0,0*	*0,0*
SCR	*353,2*	*350,9*

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	*626,0*	*612,5*
Tier 1	607,2	593,6
Tier 2 (capped)	*18,8*	*18,9*
Tier 3	*0,0*	*0,0*
MCR	*93,9*	*94,5*

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

The company 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.

[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).

[4] The volatility adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. Insurers are allowed to adjust the risk free rate to mitigate the effect of short-term volatility of bond spreads on their solvency position. In that way, the volatility adjustment prevents pro-cyclical investment behaviour of insurers (circular letter NBB_2015_30).