Allianz Global Corporate & Specialty SE Singapore Branch

2020

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Supplementary Information 2020

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Allianz Global Corporate & Specialty SE Singapore Branch (AGCS Singapore) is incorporated as a branch of Allianz Global Corporate & Specialty SE (AGCS SE). AGCS SE is a global company registered in Munich, Germany. The company operates an international network of companies across all continents which reflects the global need of corporate and specialty customers. AGCS SE is one of the few specialist corporate insurers with a genuine global market presence that can provide "one carrier" insurance solutions across the whole spectrum of corporate and specialty risks.

In July 2020 AGCS has announced a new strategy and transformation program with a simple ambition: to be the market leader in its target segments. AGCS aims to comprehensively transform the company, creating a mutually beneficial relationship with stakeholders. AGCS Singapore is a key branch in Asia as it acts as the regional hub for Asia Pacific. There are a dedicated team of experts to serve business clients with international activities or specialist risk exposures across the region.

AGCS Singapore continuously reviews the opportunities of growth both locally and across the Asia Pacific, including emerging areas such as cyber risk and renewal energy. We continually focus on our commitment to improve systems and processes in order to maximize efficiency and service delivery for the customer. Emerging challenges of the business are more global in nature rather than specific to doing business in Asia Pacific, but include increase in regulation and market competition.

As the regional hub, AGCS Singapore leverages on the core strength of AGCS SE within the corporate and specialty segments, namely, underwriting expertise, product specialty and access to AGCS's worldwide network and full range of services from risk consulting to claims, to generate sustainable profitable growth.

Business Review of AGCS Singapore

Gross Written Premiums (GWP) declined by SGD 6.5mn to SGD 230.3mn (2019: SGD 236.8mn) mainly driven by Marine, Energy, Property, and Engineering, partially offset by growth in Liability, Financial Lines, and International Health.

The reinsurance cession rate has increased from 37% to 51% in 2020 as a result of increase in facultative reinsurance in Energy, Liability, and Financial Lines and an increasing cession rate in International Health due to the growth of the business.

Claims incurred increased to SGD 173.5mn (2019: SGD 70.9mn) largely due deterioration in claims experience across Energy, Property, Engineering, and Liability. As a result, the loss ratio net of reinsurance has deteriorated by 107.7 percentage points from 47.7% to 155.4% in 2020.

The following comments on the development of AGCS Singapore business are based on gross figures unless specified.

Marine and Aviation

Gross written premium decreased by SGD 9.6mn to SGD 18.4mn in 2020. This is mainly attributable to the cessation of the Marine Hull business. Net underwriting results produced a loss of SGD 1.1mn, further improving on the loss of SGD 5.5mn reported in 2019. The improvement is mainly due to a lower expenses in 2020.

Property and Energy

Gross written premium are SGD 95.2mn, which is lower by SGD 5.2mn compared to 2019. This decline comprises a decrease in premiums in Property of SGD 11.2mn, partially offset by an increase in premiums in Energy of SGD 6.0mn. The decrease in Property is mainly due to a decision to reduce co-insurance share and the re-underwriting of certain accounts. The increase in Energy is driven by rate increases from operational coverage and new business.

Net underwriting result deteriorated from a profit of SGD 10.1mn to a loss of SGD 72.7mn in 2019 due to a significant increase in the frequency and magnitude large claims in the period.

Liability and Financial Lines

Gross written premium increased by SGD 7.9mn in 2020 to SGD 53.0mn mainly due to upsell and new business in directors' & officers' liabilities, cyber risk, warranties & indemnity, and financial institutions professional indemnity. The 2020 net underwriting loss is SGD 6.6mn. The result is SGD 28.4mn lower compared to an underwriting profit of SGD 21.8mn in 2019, due to a deterioration in claims experience.

Engineering

The decrease in gross written premium by SGD 7.6mn to SGD 45.2mn is due to reduction in comprehensive machinery insurance coverage partially offset by new business in contactors' all risk and offshore wind. A net underwriting loss of SGD 48.0mn is a decline of SGD 26.9mn compared to 2019 and is mainly due to deterioration in claims experience.

Investment Income

Investment income increased by SGD 3.3mn to SGD 19.4mn in 2020 mainly driven by realized gains registered for maturity and partial sale of bonds.

Risk Governance

AGCS SE Singapore branch is part of the risk governance framework of AGCS SE. Assuming and managing risk is part of the business model of AGCS SE. Well-developed risk awareness and the careful weighing of chances and risks are therefore an integral part of AGCS SE's business processes. The key elements of the risk management of AGCS SE are:

- A strong risk management culture, promoted by a solid risk organization and effective risk governance.
- Comprehensive risk capital calculations with the objective of protecting the capital base and supporting effective capital management.
- The integration of capital needs and risk considerations into the decision-making and management process.

This comprehensive approach makes sure that risks are adequately identified, analyzed and evaluated. The risk propensity is described in the risk strategy and made operational by the limit system contained therein. In addition, further limits are substantiated and detailed in specific standards and directives. Strict risk control and the corresponding reports ensure the early detection of any possible deviations from the risk tolerance.

Risk Organisation

The responsibility for risk management for AGCS SE within the Board of Management lies with the Chief Financial Officer (CFO). The Chief Risk Officer (CRO), who reports to the CFO, monitors the risks assumed and regularly informs the Board of Management of AGCS SE about risk-relevant developments, the current risk profile and capital adequacy. AGCS SE Singapore Branch's Managing Director, Finance Asia Pacific and Regional Head of Risk Management, Asia Pacific assume the responsibility on AGCS SE Singapore Branch's level and reports essential risks to the Management of AGCS SE Singapore Branch.

Risk Categories

AGCS SE Singapore Branch adopts the key risk categories of AGCS SE. Based on these categories, AGCS Singapore Branch conducts an annual Top Risk Assessment in executing its business strategy:

- Underwriting risk, which is subdivided into premium, i.e. the risk that insurance premiums will not be sufficient to cover future losses and reserve risk, i.e.; the risk that existing losses will result in run-off losses with respect to the loss reserves constituted. Premium risk is further subdivided into risk of natural catastrophes, terror risk as well as risk due to other losses and other premium risks.
- Market risks, i.e. the risk of market value fluctuations differentiated by type of investment. The essential risks are interest risk, currency risk, stock risk and credit spread risk
- Credit risks (including country risks) such as the counterparty risk arising from the insolvency or liquidity shortages of reinsurers, policyholders, insurance brokers and security issuers, as well as reliability risks due to losses stemming from debtor's impaired creditworthiness.
- Operational risk: Risk that arises from inadequate or failed internal processes and controls. It may be caused by technology, employees, the organization or by external influences as well as legal and compliance risks.

Non-quantifiable risks are monitored by means of a structured identification and evaluation process. These risks are:

- Liquidity risk, which is defined as the risk that payment obligations cannot be met when they become due.

- Strategic risk: Risk resulting from strategic business decisions. This includes risks caused by business decisions that are not adapted to a changed economic environment.
- Reputational risk: The risk that arises from possible damage to an undertaking's reputation as a consequence of negative public perception.

Investment and Asset-Liability Management

The AGCS Investment and Asset-Liability-Management Standard of AGCS SE applies to AGCS Singapore. AGCS SE actively manages its investment portfolio and is actively taking investment risks in a controlled and limited manner. This results in a mid to long-term focused investment policy with an emphasis on strategic asset allocation and the goal of realizing the long-term risk premium of asset classes. Tactical asset allocation is used on a limited basis as an enhancement to the strategic asset allocation in order to profit from market opportunities.

The AGCS investment strategy takes these factors into consideration:

- Local as well as group-wide external and internal regulations, and policies
- The risk-bearing capacity and risk tolerance of AGCS' legal entities / Branches
- The general principles of a congruent Asset-Liability-Management
- The return objectives, expectations, and risk tolerance of the shareholders
- The expectations of external parties (e.g. regulators, rating agencies, clients)

The investment activities follow the general principles of a congruent ALM with a sufficient duration and currency matching within prescribed limits, and have a clear focus on liquid and high quality assets. All technical reserves are supported by investments in cash and fixed income securities.

The investment portfolio duration incorporates a going-concern perspective to mitigate the economic exposure to interest rate risk. Additionally, its maturity profile reflects the expected payment profile of our liabilities.

Risk and Solvency Assessment

An essential component of the risk management of AGCS SE Singapore Branch is the Branch's own risk and solvency assessment.

The Branch's risk and solvency situation is summarized at least once per year in a separate report as required by MAS Notice 126 – Enterprise Risk Management ("ERM") for Insurers.

The Singapore Branch complies with the supervisory capital requirement showing a capital ratio of 181.9% as at year-end 2020. All capital management processes proved to be effective.

For any queries, please contact:
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