

Allianz Global Corporate &
Specialty SE Singapore Branch

2022

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Supplementary Information 2022

Allianz Global Corporate and Specialty SE Singapore Branch

Allianz Global Corporate & Specialty SE Singapore Branch (AGCS Singapore) is incorporated as a branch of Allianz Global Corporate & Specialty SE (AGCS SE). The registered address of AGCS Singapore is 79 Robinson Road, #09-01 CapitaSky, Singapore 068897. 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 provides risk consultancy, Property-Casualty insurance solutions and alternative risk transfer for a wide spectrum of commercial, corporate and specialty risks across nine dedicated lines of business in six regional hubs.

In 2022, AGCS SE delivered on its strategic goals, following a portfolio remediation to secure the basis for future sustainable growth. AGCS Singapore is a key branch in Asia as it acts as the regional hub for Asia Pacific. There is 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 Asia Pacific, including emerging areas such as cyber risk and renewal energy. We continually focus on our commitment to improve systems and processes 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 an 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) grew by SGD 65.1mn to SGD 331.4mn (2021: SGD 266.3mn) mainly driven by growth in Property, Engineering and Health.

The reinsurance cession rate has increased slightly from 48% to 49% in 2022 because of increase in cost of treaty reinsurance and the growth of the International Health business.

Claims incurred increased to SGD 86.2mn (2022: SGD 73.2mn) largely due to large claims which occurred in Marine and Property, partially offset by Engineering. As a result, the loss ratio net of reinsurance has deteriorated by 5 percentage points from 47.1% to 52.1% in 2022.

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

Marine and Aviation

Gross written premium decreased by SGD 2.2mn to SGD 14.5mn in 2022. This is mainly attributable to exit from Marine Hull business. The 2022 net underwriting results is SGD 0.4mn. The underwriting result is SGD 19.4mn lower compared to 2021 due to higher claims experience and lower net earned premium.

Property and Energy

Gross written premium is SGD 152.2mn, which is higher by SGD 30.4mn compared to 2021. This increase comprises an increase in premiums in Property, partially offset by a decrease in premiums in Energy. The increase in Property is mainly driven by an increase in rates, new business from industrial all risk and Alternative Risk Transfer. The decrease in Energy is mainly due to decrease in operational risks and offshore wind.

Net underwriting result improved from a loss of SGD 19.6mn to a lower loss of SGD 0.4mn in 2022 due to higher net earned premium, partially offset by deterioration in claims experience.

Liability and Financial Lines

Gross written premium further increased by SGD 4.8mn in 2022 to SGD 73.9mn mainly driven by new business in warranties and indemnities, cyber risk and professional indemnity, partially offset by directors' & officers' liabilities. The 2022 net underwriting profit is SGD 26.2mn. The result is SGD 5.4mn higher compared to SGD 20.8mn in 2021, due to an improvement in claims experience and higher earned premium.

Engineering

The increase in gross written premium by SGD 10.5mn to SGD 53.7mn is mainly due to new business in comprehensive machinery insurance, contactors' all risk coverage and erection all risk. The net underwriting profit of SGD 3.1mn is a decrease of SGD 14mn compared to 2021 and is mainly due to increase in premium liabilities, partially offset by improvement in claims experience.

Investment Income

Investment income of SGD 11.7mn in 2022 is mainly from interest and dividend on bonds, partially offset by realized losses 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.

Internal Control Framework

The AGCS SE Internal Control Framework is designed to enhance the overall governance structures by articulating and assigning specific roles and responsibilities within the Three Lines-of-Defense model. AGCS SE Singapore Branch adopts the internal control framework of AGCS SE fully in executing its business strategy. It consists of specific tools, risk assessment, internal controls and further control elements and has the objective to:

- Safeguard AGCS SE Singapore Branch existence and business continuity
- Ensure compliance with applicable laws and regulations
- Create a strong control culture and environment, ensuring that all personnel are aware of the importance of internal control and their role in the internal control system
- Strengthening of all three lines of defense, being driven from the management focus on emerging risks and core controls discipline
- Conduct control activities commensurate to the risks arising from business activities and processes in AGCS SE Singapore Branch
- Provide the management bodies with the relevant information for their decision-making processes

The internal control framework elements, include the three lines of defense model, control functions, policy framework, committee framework, internal risk and control system, among others.

Integrated Risk and Control System

AGCS SE has implemented the Integrated Risk and Control System (IRCS) which ensures that effective controls or other measures are in place to mitigate significant operational risks. AGCS SE Singapore Branch is a part of the overall AGCS SE IRCS system.

The framework focuses on inherently significant risks which could potentially have a longer-term adverse effect on the reputation of AGCS SE Singapore Branch or a significant negative impact on the achievement of financial targets. These significant operational risks and their respective mitigating measures are identified, assessed, documented during risk and control assessments (operational and compliance risks) on an annual basis.

These operational risks are managed through the establishment of a set of effective mitigation measures (i.e. key controls). A control will be defined as “key control” if the actual risk would be significantly higher in the absence of the respective control. In order to allow for an annual assessment of the effectiveness of the Internal Control System, all key controls are being tested regularly on a risk-based approach, at minimum on a three-year basis. The control testing includes a design test (which ensures that the control is performed as documented). Both testing aspects can by themselves lead to a control deficiency which needs to be adequately addressed in time. Testing in general should be done by an independent person, ideally within the 2nd or 3rd Line of Defense.

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 of 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 SE Singapore Branch conducts an annual top risk assessment to identify and evaluate the risks faced by AGCS SE Singapore Branch in executing its business strategy. These are regularly discussed by the Board of Management and, if necessary, risk reduction measures are defined. Every quarter, the list of top risks is reviewed and the measures to be taken are also monitored. The top risks include security risk, accumulation risk and HR risk.

AGCS SE Singapore Branch monitors and controls the following risk categories:

- Underwriting risk, which is subdivided into premium, i.e. the risk that insurance premiums will not be sufficient to cover future claims and reserve risk, i.e. the risk that future claims payments from claim that have already occurred will exceed the loss reserves booked for them. Premium risk is further subdivided into risk of natural catastrophe risk, terrorism risk and other premium risks.
- Market risks, i.e. the risk of losses from fluctuations in market value differentiated by type of investment. The main risks are interest, exchange rate and credit spread risks.
- Credit risks (including country risks) such as counterparty risk due to the insolvency or liquidity difficulties of reinsurers, policyholders, insurance brokers and security issuers, as well as rating risks due to losses in value caused by the deterioration of debtors’ creditworthiness.
- Operational risk, risks that arises due to inadequacies or errors in processes and systems, or because of control failure. They 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 are:

- Liquidity risks that describe the risk of non-fulfillment of due payment obligations.
- Strategic risks, i.e. risks arising from strategic business decisions. This also includes the risk that business decisions are not adapted to a changed economic environment.

- Reputational risks, i.e. risks arising from possible damage to the branch's reputation as a result of negative public perception.

As part of AGCS SE Singapore branch's steering activities, management would ensure that the branch have adequate liquidity to meet arising funding needs. Short-term liquidity needs are expected to be fully met by available operational cash, the Allianz SE cash pool and maturing term deposits. Mid and long-term funding needs are expected to be funded from cash generated by maturing or sold investments.

Liquidity needs are assessed in normal and stressed conditions and compared to available liquidity at various time buckets as outlined in the AGCS Standard on Liquidity Risk Management. The AGCS SE Singapore branch complements the legal entity level liquidity risk management of AGCS SE by branch specific requirements and processes. AGCS SE Singapore branch does reassess its liquidity risk situation and adequacy of its contingency funding plan on a regular basis, at least annually.

The available sources of liquidity of the AGCS SE Singapore branch are its investment portfolio which is investing in highly liquid SGD denominated fixed income investments, and its access to the Allianz SE cash pool with full capacity available as for AGCS SE.

AGCS SE Singapore branch also prepares its own risk and solvency assessment annually whereby the branch's risk and solvency situation are not only assessed over the year and at the end of the year, but also covers the entire three-year planning period.

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 235% as at year-end 2022. All capital management processes proved to be effective.