Solvency and Financial Condition Report 2023

ERGO Insurance NV/SA

Content:	Solvency and Financial Condition Report 2023
Version:	1.0
Status:	Final
Reporting period:	01/01/2023 – 31/12/2023
Valid from:	18/03/2024
Report Owner:	Risk Governance and Reporting
Reviewed by:	Management Committee, 05/03/2024
	Audit and Risk Committee, 15/03/2024
Authorized by :	Board of Directors, 18/03/2024
Level of obligation:	ERGO Insurance NV/SA
Level of confidentiality:	C1: Public

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 2023 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 2023 (i.e. reporting period is 1 January 2023 to 31 December 2023). Data contained in this report are subject to data quality monitoring performed in accordance with requirements expressed in the company's Data Quality Policy.

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 that ERGO Insurance NV/SA closed its book to new policies and will focus on fully serving existing customers as from 1 July 2017, ERGO Insurance NV/SA terminated the agency agreement with its exclusive insurance agent ERGO Partners NV/SA and manages the existing ERGO Pro portfolio as a direct insurer, whilst the existing (closed book) portfolio of ERGO Life is still being serviced by the network of independent brokers.

During 2023, the following key developments occurred:

- **Gross Written Premium**: Overall, there was a 9% (21,1 Ml €) decline in the total Gross Written Premium 2023 (from 221,6 Ml € in 2022 to 200,5 Ml € in 2023).

- **Claims:** The overall claims incurred increased by 8% (+25,0 Ml €). This is mainly explained by the higher maturity payments (+24,3 Ml €).

- **Expenses:** Total expenses before cost allocation were 1,0 Ml € higher compared to 2022.

- **Net income from investments** (in BEGAAP values) decreased from 81,6 Ml € to 77,3 Ml € in comparison to 2022, mainly driven by a decrease in the extraordinary investment result from 3,3 Ml € in 2022 to -1,5 Ml € in 2023.

- **Solvency II capital position:** ERGO Insurance NV/SA is strongly capitalised in terms of the level and quality of capital. The Solvency II ratio amounts to 253% at 31 December 2023.

B. System of Governance

The governing bodies in the system of governance include: the Board of Directors, the Audit and Risk Committee, the Nomination and Remuneration Committee, and the Management Committee.

During 2023, 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.

C. Risk Profile

Like other insurance companies, ERGO Insurance NV/SA is exposed to risks of various sorts:

- Market risk is the major risk contributor to the company's risk profile. It is the risk of a loss that may be caused by fluctuations in the prices of the financial instruments in a portfolio. The main risk factors for ERGO Insurance NV/SA are the interest rates, credit spreads and equity risk. The equity risk increased significantly, in line with the strong positive performance on the equity markets in 2023. Spread risk increased over 2023 following the higher market values of the exposed bonds and some new investments in specifically corporate bonds. Interest rate risk remains limited but somewhat increased in 2023, following the interest rate development. The low interest rate risk position is the result of a good asset-liability matching.
- 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 2023, lower interest rates led to lower underwriting risk as the mass lapse risk decreased.
- Operational risk is defined as the risk of loss caused by failed internal processes, people, systems, or external drivers. The exposure to Operational Risk remains mostly controlled, following continued efforts to reinforce control activities within the company.

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 Compliance Function reports as well regularly to the governing organs on its monitoring activities and its assessment on Compliance risks and linked operational controls in place.

Together with DKV Belgium NV/SA, ERGO Insurance NV/SA has developed a local sustainability approach. The approach covers sustainability in terms of impact on the product portfolio, on the investments made, and on the working as a company.

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 2023, the total technical provisions increased to 4,3 Bl € from 4,2 Bl € in 2022, mainly due to the lower interest rates and to the positive performance of the unit-linked funds. The Risk Margin remained fairly stable.

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 2023 was to maintain the attained position since year end 2022.

Nevertheless, where possible, ERGO Insurance NV/SA acts to further optimise its 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'[1] for 2023.

Solvency II ratio at 31 December 2023 is solid and amounted to 253%, it increased compared to 2022 (223%).

Eligible own funds (EOF) increased from 586,8 Ml € to 725,8 Ml € during the reporting period, mainly driven by market developments (strong positive performance on the equity markets and positive impact of change in bond spreads).

Solvency Capital Requirement (SCR) increased from 263,2 Ml € to 287,1 Ml € due to the higher market risk outweighing the lower life underwriting risk.

[1] 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).

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.