

# RISK MANAGEMENT DISCLOSURE UNDER MAS NOTICE 124<sup>1</sup> (SINGAPORE BRANCH)

June 2024

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<sup>1</sup>The figures disclosed in this document are summarised to provide relevant and concise information to the readers. This document is published on 30 June 2024. More detailed and complete information is available at the MAS statistics page which can be found at <http://www.mas.gov.sg/Statistics/Insurance-Statistics/Insurance-Company>Returns/I556L.aspx>.

The following commentary is intended to provide you with relevant, timely and adequate information to give you a clear view of the business activities, performance and financial position of Transamerica Life (Bermuda) Ltd. ("Transamerica Life Bermuda"). We also hope that the information provided will enhance your understanding of the risks to which we are exposed and the way we manage these risks.

## **COMPANY PROFILE AND CORPORATE STRUCTURE**

From its foundation in 1906 to the present, Transamerica has helped individuals, families, and businesses to protect and preserve their wealth. Transamerica Life Bermuda has inherited this tradition of providing quality financial products and services.

The ultimate holding company of Transamerica Life Bermuda is Aegon Ltd. ("Aegon"), which was formerly known as Aegon N.V., one of the world's leading life insurance and financial services organisations. On September 30, 2023, Aegon Ltd. is redomiciled in Bermuda from Netherlands and will continue to be listed in Euronext Amsterdam (AGN) and New York Stock Exchange (NYSE). More information on the redomiciliation can be found, as well as the documentation relating to it, can be found here: <https://www.aegon.com/investors/redomiciliation>. Transamerica Life Insurance Company owns 100% of the shares in Transamerica Life Bermuda. Transamerica Life Insurance Company is incorporated in Iowa, United States of America and is an indirect wholly owned subsidiary of Aegon Ltd.

Leveraging on Transamerica's experience in managing universal life insurance portfolios of over 40 years, Transamerica Life Bermuda specialises in providing life insurance solutions tailored for High Net Worth ("HNW") individuals, families or businesses, via our universal life and term life products. Incorporated in Bermuda, Transamerica Life Bermuda currently has two branch offices located in Hong Kong and Singapore. Our team of specialist underwriters is experienced in handling exceptionally large sums assured and complex cases supporting specific legacy planning needs and key man protection.

The Singapore branch, which is subject to regulatory oversight by the Monetary Authority of Singapore ("MAS"), adopts a business-to-business model. Solicitation and distribution are conducted through insurance brokers, licensed financial advisers, capital markets intermediaries and banks that primarily target the HNW segment.

Our vision is to be an Asia-based leader in the HNW life insurance market by helping our HNW customers achieve a lifetime of financial security and provide them with peace-of-mind. We adopt the following strategic priorities:

- **Innovative Product Offerings**

We offer a variety of universal life products and term products for uncompromising individuals. Our commitment to building truly innovative products has always been of paramount importance to us.

- **Embedded Business Partner Relationships**

We strive to select our business partners with specialised experience in serving the HNW market that share and demonstrate mutual commitment in providing exceptional customer service.

- **Exceptional Local Customer Service**

We have always strived to create leading customer experience. Our commitment to quality, service and ultimately our customers over the past century is something of which we are very proud.

- **Empowered Employees**

Investing in our employees is one of our critical strategic priorities. By continuing to invest in the personal and professional capabilities of our employees, we will help enable and empower them to better serve our customers.

## **CORPORATE GOVERNANCE**

### **Board Responsibilities**

Transamerica Life Bermuda's board of directors ("the Board") oversees Transamerica Life Bermuda's affairs, including those of the Singapore branch.

The Board meets at least four times a year to review business performance and key activities, and to ensure that adequate corporate governance frameworks are in place across the organisation. It also ensures that any reliance placed on group-level corporate governance practices are in accordance with any local regulatory requirements. The Board has established a separate Audit Committee, Risk and Capital Committee and an ALM Investment Committee (a sub-committee of the Risk and Capital Committee), all of which are constituted with written and approved charters.

### **Risk Governance**

Aegon's risk governance structure comprises a set of risk and capital committees on different organisational levels: group level, regional level, and at an entity level for Transamerica Life Bermuda. Transamerica Life Bermuda's risk team and committees have matrix reporting to the risk function at the next organisational level.

### **Three Lines Model**

In order to ensure conscious risk-return decision making and to limit the magnitude of potential losses to within defined thresholds, a risk management structure has been established based on a 'Three Lines Model'.

The 'Three Lines' are: risk owners, risk management and independent assurance. The application of the 'Three Lines' structure promotes a professional risk culture where risk management is embedded within the business.

The risk owners are directly responsible for managing and taking risk in accordance with defined risk tolerances and risk policies. This first line embeds risk management into all elements of Transamerica Life Bermuda's value chain as well as in its supporting processes.

The risk management function facilitates and oversees the effectiveness and integrity of the Enterprise Risk Management framework across the organisation and participates in decision making based on its authority as described in the charters. The role of the risk management function is to advise risk owners, thus resulting in informed decisions.

Finally, the internal audit function, together with the external auditor and Audit Committee (as the third line), provide independent assurance regarding the effectiveness and integrity of the Enterprise Risk Management framework across the organisation. The internal audit function reports its observations directly to the Audit Committee.

### **Risk Committees**

Transamerica Life Bermuda's Risk and Capital Committee ('RCC') is responsible for overseeing the implementation and compliance of Transamerica Life Bermuda's Enterprise Risk Management framework, including its risk policies, guidelines and tolerances.

The RCC ensures that risk management is appropriately integrated into Transamerica Life Bermuda's broader strategy and monitors Transamerica Life Bermuda's overall risk exposure. If Transamerica Life Bermuda breaches a risk tolerance, the RCC supervises and monitors any necessary remediation and if needed, reports the matter to the next level within the risk governance structure as well as to the Board.

The ALM Investment Committee, which is a sub-committee of the RCC, oversees and manages risk issues arising from investing assets to generate income and support contractual liability payments along with the related general account reserves and capital.

### **Internal Controls**

This section outlines the general principles of Transamerica Life Bermuda's internal control system and of the Risk Management Framework which is a key element of the Aegon's internal control system.

Transamerica Life Bermuda has documented signing authority limits and requirements as part of its internal control framework and agreed procedures on the opening of bank accounts. Operating procedures and limits also apply to Transamerica Life Bermuda's bank accounts. Transamerica Life Bermuda has also established robust documented controls over other operating procedures to reduce the potential for fraud risk, as well as money laundering processes and procedures to reduce the risk of anti-money laundering. Proper segregation of duties has been established.

Transamerica Life Bermuda has documented internal controls which are performed either internally or through services agreements with affiliates.

Transamerica Life Bermuda has outsourced its internal audit function to Aegon International regional office. The internal audit function audits Transamerica Life Bermuda's internal controls. The Board relies on the internal audit function to perform audits on operating procedures and to report back to the Board with the results.

The general principles of Transamerica Life Bermuda's internal control system apply to all functional areas. These principles are:

- Compliance with the Aegon's Code of Conduct. The Aegon Code of Conduct states that all employees will conduct their work in an ethical manner;
- If employees of Transamerica Life Bermuda become aware of or observe fraud, questionable accounting practices, or other unethical behavior they should report it to a member of management, Human Resources or to their local ethics hotline;
- Employees must be instructed regarding sensitivity and confidentiality of company and policyholder or client information;
- All departments must develop a system of internal control to ensure that the assets and records of Transamerica Life Bermuda are adequately protected from loss, theft, alteration or unauthorised access;
- All departments establish and maintain adequate segregation of duties. Where adequate segregation cannot be achieved, other compensating controls must be established and documented;
- Transamerica Life Bermuda has a business continuity plan in place with a regular update process, and
- Records of Transamerica Life Bermuda must be maintained in compliance with record retention policies and local regulatory requirements.

## **ENTERPRISE RISK MANAGEMENT**

Transamerica Life Bermuda has established an Enterprise Risk Management framework to provide direction to manage the level of risk consistent with the requirements of various stakeholders, including policyholders, regulators and shareholders. This framework sets the boundaries for seeking an optimal risk profile and capital level, taking into account the risk/return characteristics of the risks that Transamerica Life Bermuda faces. This also ensures that Transamerica Life Bermuda maintains a solvency and liquidity position such that there is no plausible scenario that would cause it to default on its obligations to its policyholders.

The Enterprise Risk Management framework is embedded into Transamerica Life Bermuda's key functional areas such as business planning, capital planning and management, remuneration, pricing and product development, reinsurance as well as sales and operational processes.

Transamerica Life Bermuda's Enterprise Risk Management framework comprises various risk policies and guidelines, including the Asset Liability Management Strategy. This document sets out the risk limits on the mismatch between interest rate sensitivity to Transamerica Life Bermuda's liabilities and those assets used to back those liabilities.

To embrace the challenges and opportunities arising from environmental risk, the Enterprise Risk Management framework is enriched to incorporate formal governance and strategies to enhance Transamerica Life Bermuda's resilience to and management of relevant exposure. Further details on the environmental risk approach and exposures are consolidated at group level and presented in the Integrated Annual Report of Aegon via the below link.

<https://www.aegon.com/investors/annual-reports>

## **INSURANCE AND FINANCIAL RISK MANAGEMENT**

### **Market Risk**

The main investment objective of Transamerica Life Bermuda is to provide investment income sufficient to support Transamerica Life Bermuda's liabilities while preserving its invested capital. Transamerica Life Bermuda monitors its capital adequacy on an economic basis. There are various components of the economic capital model that cover the various risk exposures. Market Risk covers both Investment Risk ("IR") and Mismatch Risk ("MR").

Investment Risk exposure captures the risk that the market value of Transamerica Life Bermuda's investments changes and includes fixed income risk, equity risk, alternative investments risk, counterparty risk, and equity volatility risk. Underlying risk drivers vary with specific IR risk types and are generally related to the ability of the issuing entity to make good on the promises of the investment. IR affects direct investments in the Singapore branch's non-par Singapore Insurance Fund and Offshore Insurance Fund.

Mismatch Risk captures the risk that arises from assets and liabilities having different sensitivities to interest rates and currency exchange rates. It covers three distinct risk types: interest rate risk, interest rate volatility risk, and currency risk.

Our economic capital methodology is calibrated to ensure that adequate surplus is maintained to ensure obligations to customers are met even if Transamerica Life Bermuda experiences adverse movement from a 1-in-200-year adverse scenario.

Transamerica Life Bermuda has established investment risk policies to manage market risk by setting and monitoring objectives and constraints on investment, diversification and limits on investment in asset allocation, regions, sectors, issuers and market. The investment risk policies also cover asset

liability matching, liquidity risk and derivatives use. Transamerica Life Bermuda's ALM Investment Committee has the primary responsibility for investment oversight.

Compliance with the investment risk policies is monitored by the investment manager daily and by the ALM Investment Committee quarterly. This Committee monitors various investment reports as part of its supervision of Transamerica Life Bermuda's investment activities.

As at 31 December 2023, the Singapore branch had SGD429.5 million in investments, of which 94% are investment grade.

<b>2023 INVESTMENT HOLDINGS</b>		
<b>Description</b>	<b>Singapore Insurance Fund (SGD Million)</b>	<b>Offshore Insurance Fund (SGD Million)</b>
Government debt securities	15.8	0.6
Qualifying debt securities	208.6	164.8
Other debt securities	18.4	21.3
<b>Total Investment Assets</b>	<b>242.8</b>	<b>186.7</b>

Transamerica Life Bermuda has limited appetite to default risk and focuses on counterparties with high credit rating with low expected defaults. Transamerica Life Bermuda also monitors the credit name exposures against limits differentiated by credit ratings. Furthermore, credit migration of the asset portfolio is closely monitored by Transamerica Life Bermuda and investment manager.

Transamerica Life Bermuda does not intend to take on equity risk and targets to hedge full equity exposures in the Indexed Universal Life (IUL) product.

### **Mismatch Risk**

Transamerica Life Bermuda holds assets to back its liabilities under its insurance contracts. Mismatch risk is the risk of losses when these assets and liabilities display different sensitivities to certain risk factors (for example, interest rates). Interest rate mismatch risk is a key risk of Transamerica Life Bermuda's business.

Duration is one of the key metrics used to measure how well the assets and liabilities are matched with regard to interest rate sensitivity. This key metric is a measure of change in value as a result of small changes in interest rates. Transamerica Life Bermuda has an Asset Liability Management Strategy to help ensure that the duration of the assets and associated liabilities are within the risk limit to keep potential losses to within an acceptable limit.

For internal management purposes, capital will be held for any mismatch risk taken, including both interest rate risk and volatility risk. As at 31 December 2023 the Singapore branch's regulatory Debt Investment and Duration Mismatch Risk Requirement was SGD43.4 million. This covers risk charges on interest mismatch risk and credit spread risk as defined by Singapore's Risk-Based Capital framework. At the entity level, the required capital is also determined in line with Aegon's internal Economic Capital Model.

The Singapore branch regularly conducts Own Risk and Solvency Assessment to measure the impact of changes in market variables to ensure that the Singapore branch's risk tolerance is maintained and remains adequately capitalised.

The Singapore branch has limited appetite for currency mismatch risk and backs its liabilities with assets denominated in the same currency (e.g. in USD), apart from a handful of term policies and operating

expenses in denominated in SGD, which the Singapore branch only maintains small bank balances for and thus results in minimal exposures on currency mismatch.

### **Insurance Risk**

Underwriting risk ("UR"), also referred to as "insurance risk", may arise from deviations in product pricing assumptions. These are typically actuarial assumptions that cover policyholder behavior and claims. UR is the result of both the inaccuracies in projecting liability cash flows over several future time periods, as well as fluctuations in the incidence of claims. Concentration risk refers to the risk of loss arising from a disproportionate exposure to a particular group of customers.

The Board defines the risk tolerance for insurance risks relative to the overall risk capacity by setting specific risk limits. Parameter sensitivity is tested to analyse deviations in the mortality assumptions on both a level and trend basis. In addition, exposures relative to risk tolerances are monitored and stress tests performed at both the Transamerica Life Bermuda entity level and the Singapore branch level, under which both need to remain solvent otherwise a capital management plan must be put in place. This is documented and is part of the Enterprise Risk Management framework.

Transamerica Life Bermuda maintains documented underwriting processes that cover the assessment of proposals against limits to the gathering and reviewing of evidence to support the applications. The processes also ensure that appropriate premium rates are charged based on internal guidelines. These processes are periodically validated by internal quality assurance processes, internal audits and external reinsurer reviews.

As at 31 December 2023, the Singapore branch had 3,569 in-force policies with a gross sum assured of SGD16.2 billion. The majority of in-force policies are our universal life products, which also dominated the contribution to the Singapore branch's new business in 2023.

### **Concentration Risk**

Mortality concentration risk per life is managed by a retention limit. Any risk exceeding the retention limit is transferred through reinsurance. Transamerica Life Bermuda cedes risk to other companies, including certain affiliated companies through the use of reinsurance. Risks are reinsured with other companies to permit the recovery of a portion of the direct losses incurred.

Transamerica Life Bermuda remains liable even if the reinsuring companies do not meet their obligations under these reinsurance treaties. As such, Transamerica Life Bermuda has established processes to select and periodically monitor partnered reinsurers on their financial strength and service standards.

As of 31 December 2023, the Singapore branch had ceded insurance provisions of SGD2.7 billion. A majority of the risks was ceded to our parent company, Transamerica Life Insurance Company, which holds a credit rating of 'A+' issued by S&P Global on 30 March 2024. After considering the impact of reinsurance, the capital held for the Singapore branch's regulatory Insurance Risk Requirement as at 31 December 2023 was SGD11.0 million, as defined by Singapore's Risk-Based Capital framework.

Transamerica Life Bermuda also conducts experience studies to determine whether any portfolio experience deviate materially from assumptions. Segments that are evaluated as part of the experience studies may include the country of residence, gender, age, risk class and smoker non-smoker status. Higher than expected mortality claims may reduce the available capital; if the deterioration in mortality experience is expected to persist, Transamerica Life Bermuda will reflect such changes in the best estimate mortality assumption as appropriate. Required capital may subsequently increase as a result of this change.



The Singapore branch conducts annual Own Risk and Solvency Assessment (“ORSA”) to assess the impact on the Singapore statutory capital adequacy given the insurance risk exposure. The ORSA report is presented to the Board and the Board approves the report.

### **Liquidity Risk**

Transamerica Life Bermuda must pass the Liquidity Stress Test under various extreme scenarios, where Transamerica Life Bermuda must be able to meet cash demands for a period of two full years with restriction in asset sale. Compliance with the stress tests is assessed quarterly.

In 2023, Transamerica Life Bermuda passed the liquidity test under all stress scenarios, meaning the projected available liquidity is higher than projected required liquidity throughout the 2 years projection period.

Management actions are applied to the stress scenarios. Ease of implementation and attractiveness of the actions have been assessed, and the actions are expected to be readily actionable to contribute additional liquidity under stress.

## **INSURANCE PROVISION AND CAPITAL ADEQUACY**

### **Insurance Provision**

The Singapore branch’s statutory reserving basis and capital requirements are set up in accordance with Singapore’s Risk-Based Capital framework.

The reserves for the Singapore branch are set using a Gross Premium Reserve calculation method. This method can also be described as a discounted prospective cash flow method. The assumptions are best estimate assumptions with provisions for adverse deviations.

The best estimate assumptions are set based on past experience. Transamerica Life Bermuda also obtains advice from consulting firms and reinsurers about future expectations which is also considered and reflected in forming the assumptions. Transamerica Life Bermuda conducts experience studies at the entity level to ensure that the experience assumptions continue to be relevant.

Discount rates used for the Singapore statutory valuation of policy reserves are prescribed by the MAS. There are two discount rates used, one is the U.S. risk free rates, the other is the best estimate investment return which is derived based on the expected investment return of assets backing the policy reserves.

The Singapore branch’s policy liabilities, net of reinsurance, stood at SGD183.7 million as of 31 December 2023.



## Capital Adequacy

The Singapore branch's financial condition is measured in the context of Singapore's Risk-Based Capital framework which takes into consideration insurance risk, mismatch risk and concentration risk. The Singapore branch is required by the MAS to maintain minimum standards in respect of its Capital Adequacy Ratio and financial resources.

The Singapore branch adopted a Capital Management Plan designed to ensure that adequate capital is maintained, while providing the flexibility necessary to take advantage of growth opportunities and to manage the risks associated with the business. This approach to managing capital was developed to ensure an appropriate balance between the internal assessment of capital needs and the regulatory solvency requirements, which include maintaining a Fund Solvency Requirement at not less than 100% and a Capital Adequacy Requirement at not less than 100%.

The Capital Management Plan sets out risk tolerance levels and any corresponding management actions based on internal and external requirements. The Singapore branch monitors its solvency position on a monthly basis and also on an ad-hoc basis in accordance with procedures to re-evaluate the solvency position triggered by events that are deemed to pose a risk to Transamerica Life Bermuda's and the branch's solvency position. The Singapore branch also conducts annual ORSA exercise and it complied with all capital requirements in 2023. We aim to have an adequate level of capital throughout 2023 for the Singapore branch.

The Singapore branch's financial strength remained healthy throughout 2023 with a Capital Adequacy Ratio of 546% as at 31 December 2023. The Singapore branch categorises its issued policies into two groups, namely 'Singapore' and 'Offshore' policies. Accordingly, premiums in relation to these policies are separated into the Singapore Insurance Fund and Offshore Insurance Fund respectively.

In addition to statutory capital solvency monitoring, Transamerica Life Bermuda also monitors its capital adequacy on an economic basis. Our economic capital methodology is calibrated to ensure that if Transamerica Life Bermuda experiences adverse movement to the 99.5th percentile, adequate surplus is maintained to ensure obligations to customers are met. The various components of the economic capital model cover the various risk exposures of Transamerica Life Bermuda.

## FINANCIAL PERFORMANCE

The financial performance of the Singapore branch in 2023 is presented in the summary below:

<b>2023 STATEMENT OF FINANCIAL PERFORMANCE</b>		
<b>Description</b>	<b>Singapore Insurance Fund (SGD Million)</b>	<b>Offshore Insurance Fund (SGD Million)</b>
Single Premium	28.3	51.6
First Year Premium	14.8	5.7
Recurring Premium	6.6	6.7
<b>Gross Premiums</b>	<b>49.7</b>	<b>64.0</b>
Outward reinsurance premiums	(4.5)	(5.7)
Investment income	11.1	12.5
Investment expenses	(0.4)	(0.5)
Gross claims settled	(316.9)	(258.5)
Reinsurance recoveries	316.9	255.4
Management expenses	(8.7)	(11.6)
Distribution expenses	(12.1)	(15.7)
Decrease in policy liabilities, gross of reinsurance	79.3	17.1
Decrease in reinsurers' share of policy liabilities	(99.8)	(40.9)
Tax expense	(4.2)	(4.0)
<b>Net Income</b>	<b>10.4</b>	<b>12.1</b>
* Unrealised gain on investments	11.3	8.6
<b>Total Comprehensive Income</b>	<b>21.7</b>	<b>20.7</b>

\* Under FRS 1 – Presentation of Financial Statements, gains/losses on investments is presented as Other Comprehensive Income (OCI).

## Source of Earnings Analysis

The table below provides a summary of the Source of Earnings in FY 2023 for the Singapore branch.

<b>2023 Source of Earnings Analysis</b>	<b>Singapore Insurance Fund (SGD 'Million)</b>	<b>Offshore Insurance Fund (SGD 'Million)</b>
Impact of New Business	(3.0)	(2.6)
Experience Gains & Losses - Mortality	0.4	0.2
Experience Gains & Losses - Forfeiture/Surrender	0.8	(3.0)
Experience Gains & Losses - Interest	3.0	3.6
Experience Gains & Losses - Expenses	0.6	(4.2)
Change in Valuation Basis	3.1	6.5
Other	16.8	20.2
<b>Total Comprehensive Income</b>	<b>21.7</b>	<b>20.7</b>

### Claims Statistics for the year ended 31 December 2023

The table below provides details of claims and termination pay-outs for the 5-year period from 1 January 2019 to 31 December 2023.

	Singapore Insurance Fund (SGD Million)		Offshore Insurance Fund (SGD Million)		Annual Total
	Death	Surrenders	Death	Surrenders	
2019	0.5	91.7	1.4	62.1	155.7
2020	7.5	115.6	102.7	43.6	269.4
2021	9.5	77.0	16.8	62.5	165.8
2022	10.2	148.8	4.9	117.9	281.8
2023	46.2	270.7	14.7	243.8	575.4

### Pricing Adequacy

Transamerica Life Bermuda prices its products in accordance with its internal guidelines, which ensure adequate pricing considerations, all relevant risks are recognised and a profitability target is met under a market consistent basis. For the Singapore branch, premium certificates for all new and re-priced products are filed with the MAS. The premium certificates are prepared in accordance with the Insurance Act (of Singapore).