Life Insurance Corporation (Singapore)Pte Ltd

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MANAGEMENT REPORT

31/12/2013

LIFE INSURANCE CORPORATION (SINGAPORE) PTE. LTD.

For the financial period from 1 January 2013 to 31 December 2013

Company Profile

Life Insurance Corporation Singapore ("LIC Singapore") was incorporated as a direct life insurance company in Singapore on 30 April 2012. It is a fully owned subsidiary of the LIC of India which was established in 1956 and owned by the Government of India. Prior to obtaining the operating license from the Monetary Authority of Singapore ("MAS")' approval on 22 January 2013, LIC Singapore had operated a representative office in Singapore. The establishment of a subsidiary in Singapore is part of the LIC group's plans to expand its global footprint into South-east Asia.

Products

Under the life insurance license, LIC Singapore is permitted to write all types of life insurance products. On 6 January 2014, LIC Singapore launched its maiden non-participating single-premium endowment product "Wealth Plus". Wealth Plus was closed to new business on 28 February 2014.

Wealth Plus is offered for a policy term of 5 years with sum assured ranging from SGD 30,000 to SGD 50,000 for policyholders between 18 and 70 years of age, subject to terms of residency. The product offers a guaranteed interest of 1.652% per annum on the single premium for the policy term and is paid along with the single premium upon maturity.

As part of its objectives to add value to customers and the Singapore mass market, LIC Singapore will focus on the introduction of non-participating products while continuing efforts to put in place the necessary system infrastructure and capabilities to manufacture and sell participating products in the medium term.

Distribution channel

In Singapore, the common channels for distributing insurance products are tied agency, bancassurance and financial advisory firms. LIC Singapore's distributes its product via 10 financial advisory firms which provides a reach of about 600 licensed representatives.

Corporate Governance

LIC Singapore is governed by Insurance (Corporate Governance) Regulations 2013 which came into operation on 4 April 2013 and the "Guidelines on Corporate Governance for Financial Holding Companies, banks, direct insurers, reinsurers and captive insurers which are incorporated in Singapore" issued by the MAS on 3 April 2013.

Being a Tier 2 insurer as defined under the Insurance (Corporate Governance) Regulations 2013, the Board of LIC Singapore is responsible for the adequacy of external and internal audit functions, as well as overseeing the establishment and operation of an independent enterprise risk management system supported by an adequate risk management function.

Adherence to good corporate governance is an integral part of the philosophy of LIC's business conduct. The Board of Directors and Management of LIC Singapore place great importance on high standards of corporate conduct and are committed to promoting and maintaining values which emphasize integrity, honesty and proper conduct at all times in the business operations and dealings of the insurer. Aligning to the LIC group's commitment to put customers first, LIC Singapore practices operational transformation, information sharing, and accountability and ensures dialogue with all stakeholders in addition to formulation of value-based policies and practices at all levels.

Board Composition

LIC Singapore's Board comprises three members, namely:

- Mr Surya Kumar Roy, Board Chairman (also for LIC of India);
- Mrs. Usha Sangwan , Non-Executive Director;
- Mr K Kadiresan, Executive Director (also the Chief Executive Officer ("CEO") of LIC Singapore).

Board meetings are generally held once in three months. The Board provides strategic direction and execution, ensures financial discipline and accountability to the policyholders and also ensures the interest of the policyholders and stakeholders. The Board is responsible for overseeing the invested assets and the investment process of LIC Singapore. The Board will rely on the Investment Committee /CEO for ensuring that the day to day management of the investment portfolio is appropriate. Financial powers are delegated to the Investment Committee and to the CEO separately. The Board approves the investment policy statement and asset allocation and the policy will be up for review annually. At least quarterly, the Board will review the performance of the investment portfolio and consider and decide upon any special circumstances or issues that may arise.

Risk Management

With effect from 1 January 2014, all licensed insurers in Singapore are required to establish an enterprise risk management ("ERM") framework in accordance with the mandatory requirements stated in the MAS Notice 126 "ERM for Insurers". In addition, insurers are required to perform an annual own risk and solvency assessment ("ORSA") to assess the adequacy of their risk management, and current and projected future solvency positions.

The parent Company , LIC of India has a committed focus on the risk management systems for its investment functions by efficiently managing risk and returns by implementing comprehensive risk management policies, risk adjusted investment decisions and incorporating a strong risk mitigation culture. In line with this corporate culture, a comprehensive investment policy, risk management policy, asset-liability management policy and standard operating procedure covering the entire gamut of fund management risks and operational risks has been prepared which ensures systematic management of investment risk faced by LIC of India. In terms of risk governance structures, LIC of India has a Board-level Risk Management Committee to guide it in the implementation of best practices in the respective areas.

LIC Singapore has established risk management policies and guidelines which set out its overall business strategies, its tolerance of risk and its general risk management philosophy. Such established policies are reviewed annually by the Senior Management and periodic reviews are undertaken to ensure that the policy guidelines are adhered to. LIC Singapore will continue to enhance its ERM framework and internal controls as the business continues to grow steadily. In accordance to MAS Notice 126, LIC Singapore as a Tier 2 insurer will be preparing an ORSA report for submission to the MAS by 31 December 2015.

LIC Singapore operates in a mature and competitive insurance landscape in Singapore with established life insurance players. LIC Singapore expects to face substantial challenges to grow its portfolio in a measured manner, differentiate its product and service offerings from other players, and acquire market share in the life insurance segment. Based on a high-level risk assessment of the current risk profile, the material risks to LIC Singapore are life insurance risk, interest rate risk (including asset-liability mismatch risk), credit risk, liquidity risk, , operational risk as well as strategic risk relating to the undertaking of management decisions to develop the business.

Life insurance risk

The principal activity of LIC Singapore is to provide life insurance protection against risks such as mortality and morbidity (disability, personal accident). A mis-estimation of assumptions used in pricing the product as well as the setting of technical provisions may give rise to potential shortfalls when actual experience deviates from expected experience. Sources of assumptions affecting insurance risks include policy lapses and policy claims such as mortality, morbidity and expenses.

LIC Singapore utilizes surplus reinsurance to manage mortality and morbidity risks.

In addition, LIC Singapore has a Product Development Committee ("PDC") comprising Appointed Actuary, Managers from the IT, Finance, Sales and Policy Services/Claims departments to determine the design and pricing of products. The product development and pricing process in itself constitutes an important aspect of the risk assessment and management process. The Appointed Actuary reviews and certifies all new product submissions to the MAS in accordance to MAS Notice 302 and actuarial guidance notes issued by Singapore Actuarial Society. The ultimate responsibility to approve the final design and pricing of products prior to launch rests with the Chief Executive Officer and the Board of LIC Singapore.

Interest rate risk (including asset-liability mismatch risk)

LIC's objectives of investment of funds are to earn a sufficient return to fund all policyholder liabilities, match or exceed the expected returns assumed in product pricing, meet all solvency norms and capital adequacy ratio, and contribute to the growth of surplus.

LIC Singapore's exposure to changes in interest rates relates primarily to interest-earning financial assets such as Singapore Government bonds and corporate bonds. As LIC Singapore has currently underwritten only one single-premium non-participating endowment product which is closed to new business, assets backing the liabilities are earmarked specifically for this tranche. The assets backing policy liabilities are Singapore Government bonds of suitable tenor with such proportion in investment grade (S&P BBB+ or equivalent) corporate bonds to achieve the investment return assumed for product pricing purposes. Interest rate risk is managed on an ongoing basis by considering the duration and maturity of assets and liabilities. Assets are also held in cash pending investment in appropriate bonds and to support the running expenses in the business. Matching assets and liabilities in terms of size, duration and currency therefore minimizes the asset-liability mismatch risks.

Unless the Board of Directors directs otherwise, assets held in the Shareholders' Fund are invested in cash and Singapore Government bonds.

LIC Singapore does not use any derivative financial instruments.

Credit risk

Credit risk is the risk of financial loss to LIC Singapore if a customer or counterparty to a financial instrument fails to meet its contractual obligations. LIC Singapore has put in place a credit policy and the exposure to credit risk is monitored on an ongoing basis. Cash is placed with regulated financial institutions. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

LIC Singapore's reinsurance management policy is to place reinsurance with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year. LIC Singapore has entered into one life reinsurance arrangement commencing from 1 July 2013 in relation to its Non-participating business.

At the reporting date, there are no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that LIC Singapore will counter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

At the reporting date, there is no significant liquidity risk faced by LIC Singapore.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect LIC Singapore's income or the value of its holdings of financial instruments. The objective of market risk management is to manage the control market risk exposures within acceptable parameters, while optimizing the return on risk.

At the reporting date, LIC Singapore does not have any exposure to foreign currency and equity price risks.

Operational risk

Operational risk arises from any event or action that may potentially impact partly or completely the achievement of LIC Singapore's financial objectives resulting from inadequate or failed internal processes and systems, human factors, or external events.

At the reporting date, LIC Singapore has not incurred any major operational losses. It will continue to enhance its internal risk mitigation and process controls to mitigate potential lapses in its ongoing business activities.

Concentration risk

The Company does not have any significant concentration risk

Product Classification

LIC Singapore currently only writes non-participating life insurance business.

Life insurance contract liabilities

Insurance contracts are recognized and measured in accordance with the terms and conditions of the respective contracts and are based on guidelines laid down by the respective insurance regulations. The key elements affecting insurance contract liabilities are the premiums, benefit payments, maintenance expenses and valuation discount rate methodology used to calculate policy liabilities.

Life insurance liabilities are recognized immediately after contracts are entered into and premiums are charged. Gross premium valuation method is used according to Singapore Risk Based Capital Regulation ("RBC"). In the case of Non-participating policies, in which all future benefits are guaranteed, life insurance liabilities are calculated as the sum of present values of expected future outgoes minus present values of expected future premium income, discounted using an appropriate discount rate. Extra risk margin is incorporated to allow for adverse deviation from expected experiences.

According to Singapore RBC regulation, the valuation discount rate is equal to the zero coupon spot yields on Singapore Government Securities.

The assumptions on morality, disability, critical illness, expenses and lapses are derived from companies' own experience studies, reference to pricing assumptions and market benchmarks.

Capital management

All licensed insurers that carry on insurance business in Singapore are subject to the prudential standards which set out the basis for calculating the fund solvency requirements ("FSR") and capital adequacy requirement ("CAR"), which is a minimal level of capital that must be held to meet policyholders' obligations. The FSR and CAR apply a risk-based approach to capital adequacy and are determined to be the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Act. All risk requirements of all insurance funds are calculated based on current life contract liabilities and assets with respect to risk factors prescribed by MAS. It is LIC Singapore's policy to hold capital levels in excess of FSR and CAR.

LIC Singapore defines "available capital" to be share capital and accumulated profits in the insurance fund. The immediate holding company and ultimate holding company, LIC of India, ensures that the insurer has adequate capital in order to meet its obligations and to sustain ongoing operations.

LIC Singapore started operations in 2013 with paid-up ordinary share capital of $23.9 million. During the year, funds amounting to $2.5 million were transferred on 23 December 2013 and 30 December 2013 to the Non-participating fund to support the writing of the single-premium Non-participating endowment product.

As at reporting date, LIC Singapore's CAR ratio was 8,565.09% and well above the regulatory minimum.