Management Report and Group Management Report

The following management report is the condensed management report and Group management report of msg life ag, Leinfelden-Echterdingen. It tracks the business performance of the msg life Group, including that of the individual Group company of the same name, msg life ag, including the operating results for the 2021 financial year from 1 January 2021 to 31 December 2021, as well as the situation of the Group and the individual company as at the reporting date, 31 December 2021. All statements apply to the msg life Group (in the following also 'msg life') as a whole. Should the individual Group company be meant or should something different apply to the individual Group company in the course of the report, this will be explicitly mentioned or explained accordingly.

As of the reporting date, msg life ag (and its Group companies) is an indirect subsidiary of msg group GmbH, Ismaning. Hereinafter, the term 'msg Group' is used for msg group GmbH and its Group companies.

On 25 September 2020, msg life ag, Leinfelden-Echterdingen, and msg systems ag, Ismaning, signed a control agreement, which was amended on 6 November 2020. The annual general meetings of msg life ag and msg systems approved this control agreement on 10 November 2020 and 18 November 2020 respectively. The control agreement took effect retroactively as of 1 January 2021 when it was entered in the commercial register for msg life ag at the Stuttgart District Court on 20 January 2021.

The reporting currency is the euro, and the rounding is done to thousands or millions of euros. This can give rise to rounding differences of up to one arithmetical unit.

The Group's foundations

Business model

Since 1980, the msg life Group has been developing IT system solutions, advising customers on how to implement their IT strategies successfully and has developed into a leading provider of software, advice and digital cloud solutions for life insurance companies and pension fund institutions in Europe and, in particular, health insurance companies in the United States. In addition to enjoying a leading market position in the German-speaking countries, msg life's software is deployed worldwide. The solutions of the company are being used in over 30 countries.

As a holding company, the individual Group company is responsible for financing the Group companies as well as for their strategic and, to a limited extent, operational management. The holding company is primarily responsible for determining the target markets, defining the product range and making decisions concerning mergers and acquisitions. The holding company is responsible for central and staff functions such as sales, marketing, human resources, finance, business operations, controlling, internal auditing, data protection, compliance management, risk management, organisation and IT services and law.

The holding company's commercial activities are restricted mainly to the settlement of services within the Group and to financing; it operates only rarely as a contracting partner in customer projects. Within the scope of services, it is mainly the above-mentioned central and staff functions incumbent on the holding company that are settled. The purpose of the financing activity consists primarily of making interest-bearing loans to Group companies, making cash investments and distributing earnings from participating interests.

The primary income potential for the holding company lies in earnings from participating interests. For this reason, the disclosures of the Group concerning the development of markets, the general economic environment and opportunities and risks also apply to the holding company.

On the reporting date, the customers of msg life primarily consisted of insurers focusing on life insurance and pension fund institutions in Europe and, in the United States, in particular health insurance and group insurance providers. The services of msg life range from the development and implementation of standard software and the provision of digital consultancy services to the handling of full IT operations (cloud solutions).

The headquarters of msg life ag are located in Leinfelden-Echterdingen near Stuttgart, Germany. Other German branches are located in Munich, Hamburg and Cologne. The office in Düsseldorf was moved to Cologne in the 2021 financial year. msg life ag is also represented in Vienna (Austria), Regensdorf (Switzerland), Almere (Netherlands), Bratislava, Košice and Žilina (Slovakia), Maribor (Slovenia), Oporto (Portugal), Madrid (Spain) and New York, Denver and Boca Raton (USA).

According to the published announcements and the information available to msg life ag, direct or indirect interests exceeding 25 per cent of the shares as at 31 December 2021 were as follows:

Entity with reporting obligation	Type of interest	Number of shares
msg systems ag (Ismaning)	Direct	77.17%
msg group GmbH (Ismaning)	Indirect	77.17%

Organisational structure

Irrespective of its corporate structure, the msg life Group is divided up into business units assigned to market sectors or markets. This responsibility encompasses both the further development of the respective solution portfolio and the handling of customer projects, and is assumed at divisional level. The heads of these divisions and the managing directors comprise the next senior management level below the msg life ag Management Board.

Management and monitoring

As at 31 December 2021, the Management Board of msg life ag consisted of Rolf Zielke (Chairman), Dr Aristid Neuburger (Deputy Chairman), Francesco Cargnel, Holger Gorissen, Robert Hess, Milenko Radic, Jens Stäcker and Dr Wolf Wiedmann.

Holger Gorissen, Robert Hess and Jens Stäcker have all been appointed as members of the Management Board of the company with effect from 1 February 2021. Holger Gorissen stepped down as a member of the Management Board of msg life ag with effect from the end of business on 31 December 2021. Furthermore, after the end of the reporting period, Dr Aristid Neuburger and Jens Stäcker stepped down as members of the Management Board of the company with effect from the end of business on 28 February 2022.

By resolution of the annual general meeting on 24 June 2021, the provisions in the articles of incorporation concerning the number of members of the Supervisory Board who are to be elected by the annual general meeting was changed to four Supervisory Board members. Likewise, by resolution of the annual general meeting on 24 June 2021, Dr Thomas Noth, Dr Martin Strobel, Johann Zehetmaier and Dr Jürgen Zehetmaier were elected to the Supervisory Board of the company. Dr Christian Hofer and Klaus Kuhnle stepped down from the Supervisory Board.

As at 31 December 2021, the Supervisory Board of the company had four members: Johann Zehetmaier (Chairman), Dr Martin Strobel (Deputy Chairman), Dr Thomas Noth and Dr Jürgen Zehetmaier.

msg life AG and the msg Group company msg nexinsure ag, Ismaning, have been working closely together for many years in the context of the joint solution msg.Insurance Suite. The two companies are now moving even closer together and have had a joint management team with unified responsibilities since 1 February 2021. Additionally, msg life and msg nexinsure have been sharing the new co-brand msg insur:it in the insurance market since December 2021, underlining their leading role as a provider of insurance products. The new co-brand msg insur:it notwithstanding, msg life and msg nexinsure will remain independent legal units.

In September 2021, pursuant to Section 52 (2) of the German Limited Liability Companies Act (GmbHG), the shareholders' meeting of msg life central europe gmbh passed a resolution setting a target of (at least) 0% for the proportion of women on the Supervisory Board of msg life central europe gmbh and among the managing directors of msg life central europe gmbh by 31 December 2025. The shareholders' meeting is of the opinion that personal qualifications and ability, not gender, should be the decisive factor with regard to filling positions on the Supervisory Board and among the managing directors. As such, no considerations that are not solely based on the candidate's personal and professional suitability for a role should be decisive.

Important products and services

The company's core product is the policy management system msg.Life Factory, with which life insurance and pension products can be managed. The range of core insurance systems is rounded off by the policy administration system msg.Life and the all-sector system Unified Administration Platform (UAP), the latter being focused on smaller insurance companies and insurtechs, primarily in Europe.

The key specialist and across-the-board functions in the core line of business are covered in particular by the products msg.ZVK Factory (a system for managing supplementary pension funds), msg.Zulagenverwaltung (a system designed to manage the allowances of contracts subsidised under the Riester system), msg.RAN (pension settlement and documentation system), Unified Product Platform (a health and group insurance product platform, in particular in the US market), msg.Office (transaction control and document processing), msg.Tax Connect (legal tax notifications), msg.Tax Data tax exemption orders (solution for the automated management of tax exemption orders and non-assessment certificates), msg.Tax Data – Pflege-Bahr (solution for the automation of allowances processes and reporting procedures for private supplementary care insurance), msg.Sales (multichannel sales platform) with msg.Underwriting (risk assessment component) and msg.Ilis (insurance liability information system). There is also msg.Pension for managing time value accounts and company pensions, msg.Pension Data (automated provision of data for digital pension overview), msg.Marsy-Pension (an administrative solution for the management of company pension commitments) and msg.Online Insure (a self-service portal for digital communication with end customers). msg life also offers a wide array of consulting and services, ranging from software implementation to policy migration, with the migration department also offering the two migration software solutions msg.Migration System and msg.Migration Archive.

msg.Life Factory and other key components are part of msg.Insurance Suite, the common insurance platform of the msg Group. msg.Insurance Suite is a holistic industrial standard for all sectors of the insurance industry. The solution covers and integrates all necessary system components for an insurance company. msg life, msg nexinsure and the msg Group are collaborating closely in order to market msg.Insurance Suite. This collaboration and the full convergence of the components of msg.Insurance Suite are important elements of the product strategy.

Economic report

Macroeconomic and sector-specific conditions

At the time of writing of the condensed management report and Group management report, the impact of the Russian invasion of Ukraine in 2022 on the general economic and sector-specific conditions in the current 2022 financial year and beyond was not yet evident and has therefore not been taken into account in the following disclosures regarding both subject areas.

The Covid-19 pandemic continues to overshadow international economic activity. According to the Global Economic Prospect Report published by the World Bank in January 2022, the global economy is in a distinct decline compounded by new variants of Covid-19 as well as high inflation, debt and income inequality, following a strong upturn in 2021. Economists expect the global growth rate to fall from 5.5 per cent in 2021 to 4.1 per cent this year. The World Bank expects it to increase by 3.2 per cent in 2023.

The International Monetary Fund (IMF) recently downgraded the forecast it released last October in its updated World Economic Outlook in January 2022. The IMF expects the global economy to grow by just 4.4 per cent this year, following growth of 5.9 per cent last year – 0.5 per cent less than initially forecast. The IMF attributes this to the current Covid-19 situation, supply bottlenecks and the high rate of inflation. Like the World Bank, the IMF predicts growth of 3.2 per cent in 2023.

The IMF has downgraded its forecast by 1.2 percentage points to 4 per cent for the USA this year, the world's largest economy. The IMF has even downgraded its forecast by 0.8 percentage points to 4.8 per cent for China, the world's second-largest economy.

According to the IMF, the dramatic rise in inflation will remain high in 2022 due to ongoing supply difficulties and high energy prices. The organisation expects industrialised nations to see an average inflation rate of 3.9 per cent. The average rate of inflation in developing countries and emerging economies is expected to be 5.9 per cent.

With regard to Europe, the experts at the IMF expect the economy to grow by 5.0 per cent in 2021 and by 4.3 per cent this year. The forecasts of the OECD (Organisation for Economic Co-operation and Development) are somewhat more optimistic: The experts expect growth of 5.2 per cent in the previous year and 4.3 per cent in 2022. According to the experts, new variants of Covid-19 and insufficient rates of vaccination are just two factors that represent risks. Additionally, economic stimulus packages are running out and corrections are looming on the property markets.

According to the calculations of the Federal Statistical Office, Germany's GDP grew by 2.8 per cent in 2021 after having fallen by 4.6 per cent in the same period in the previous year. 'After economic performance had increased again last summer despite growing delivery bottlenecks and material shortages, the recovery of the German economy came to a halt at the end of the year due to the fourth Covid-19 wave and another reinforcement of Covid-19 preventive measures', reported the Federal Statistical Office in January 2022. Compared to the crisis in 2020, economic performance improved in almost every area in 2021. However, it has not yet reached its pre-crisis level.

The economic performance of the manufacturing sector improved by 4.4 per cent year-on-year. The aggregated economic sector of trade, transport, accommodation and food services saw growth of just 3.0 per cent. Following growth of 3.8 per cent in 2020, the construction sector reported a slight decline of 0.4 per cent. Other services, which include culture, entertainment, sports and creative activities, were hit particularly hard by the crisis: Their economic performance grew by just 0.6 per cent, following a decline of 10.5 per cent in the same period in the previous year.

In 2021, foreign trade recovered from the dramatic setback it suffered in 2020. Germany exported 9.4 per cent more goods and services abroad than in the same period in the previous year. Imports grew by 8.6 per cent. This means that foreign trade in 2021 was only slightly below the level it had reached in 2019.

The German government expects the country's economic recovery to accelerate over the course of the year. That being said, it is set to be less strong than initially predicted. 'The impact of the coronavirus pandemic continues to be felt', says a press release published by the Federal Ministry for Economic Affairs and Climate Action in January 2022. In spite of this, the economy remains 'robust'. The GDP is expected to grow by 3.6 per cent year-on-year. As such, economic performance will surpass its pre-crisis levels for the first time. As recently as December 2021, major German economic institutions downgraded their forecasts for 2022. For example, the Kiel Institute for the World Economy lowered its GDP forecast from 5.1 per cent to 4.0 per cent and the Halle Institute for Economic Research downgraded its growth forecast from 4.8 per cent to 3.5 per cent.

Under the more difficult conditions of the Covid-19 pandemic, the German insurance industry closed the 2021 financial year with a 'solid' performance, concludes Wolfgang Weiler, president of the Gesamtverband der Deutschen Versicherungswirtschaft (GDV), at its annual media conference in January 2022. He announced that insurers reported an increase in premiums of 1.1 per cent (previous year: 1.6 per cent) across all segments, reaching 223.4 billion euros.

The outlook for 2022 is cautiously optimistic. According to the GDV, the industry expects premium growth of between 2 and 3 per cent. With regard to life insurance, the Covid-19 pandemic can be expected to have an impact on business prospects in the current year too. Premium growth of between 1 and 2 per cent could be considered realistic here. The GDV expects a weaker performance from traditional life insurance products, although market-oriented products are expected to grow more strongly. 'The decisive factors here are the economic prospects of private households and the general political conditions for private old-age pensions in the current legislative period', said Weiler.

The GDV goes on to report that the premium income of life insurers and pension funds amounted to around 102 billion euros in the financial year ended. That amount is 1.4 per cent lower than in 2020. Whereas current premium income increased slightly to 65.3 billion euros, one-time premiums declined to 36.5 billion euros (-4.7 per cent).

According to the GDV, new Riester business performed well with growth of 12 per cent to 310,500 contracts. The portfolio largely remained stable, with around 10.4 million contracts. With regard to basic pensions, the number of newly brokered policies increased by almost 40 per cent to 119,000 contracts. This caused the overall portfolio to grow by 4 per cent to 2.5 million contracts.

The rating agency Moody's is confident about German life insurers: 'The pressure on life insurance is lifting gradually', said Christian Badorff, a credit analyst at Moody's, according to the business newspaper Handelsblatt in October 2021. Although the industry is still under pressure in 2022 due to low interest rates, it is set to stabilise. Moody's has upgraded its outlook for the sector from negative to stable. Life insurers are increasingly shifting new business to products that protect capital, it continues. Additionally, the additional interest reserves have suppressed the risks of their long-term interest guarantees.

The persistently low interest rates were a concern of the insurance industry in the 2021 financial year as well. The ECB launched a multi-billion-euro emergency purchase programme in March 2020 to mitigate the severe economic impacts of the Covid-19 crisis: under the Pandemic Emergency Purchase Programme (PEPP), the ECB will purchase up to 1.85 billion euros' worth of government and corporate bonds until March 2022 at the earliest.

In September 2021, the ECB decided to reduce the rate of PEPP purchases moderately. The ECB announced its decision at the most recent ECB meeting on 3 February 2022. At the same time, the ECB left the key interest rate in the Eurozone at 0 per cent, while the deposit facility rate also remained unchanged at -0.5 per cent. This means that banks must continue to pay penalty rates if they deposit surplus money with the ECB.

In light of the rapid rise in inflation, ECB President Christine Lagarde refused to rule out an interest rate increase this year. As such, the ECB is prepared to adjust all available instruments in order to reach its 2 per cent inflation target in the medium term. Lagarde made an announcement to this effect at the press conference afterwards. According to Eurostat, the statistical office of the European Union, the rate of inflation in Eurozone countries rose from 5.0 per cent in December 2021 to 5.1 per cent in January 2022. High energy costs were the main driver. According to the Federal Statistical Office, inflation in Germany fell to 4.9 per cent in January 2022 from 5.3 per cent in the previous month.

In light of interest rates having remained low for years, the Federal Ministry of Finance decided in March 2021 to lower the projected interest rate for new life insurance contracts from 0.9 per cent to 0.25 per cent from 1 January 2022 onwards. The German actuarial association Deutsche Aktuarvereinigung (DAV) had called for this to happen numerous times, as extensive premium guarantees were no longer reasonable from an actuarial standpoint due to the persistently low interest rates. In November last year, the DAV also recommended that this level remain in place until 2023: 'We do not currently see signs of a noticeable recovery in interest rates in the near future, not least in light of the economic uncertainty caused by the Covid-19 pandemic', said Herbert Schneidemann, chairman of the DAV, to support the recommendation.

For this reason, more and more insurers are developing new products with different guarantee models, moving away from traditional policies with guaranteed interest in the process. In the financial year ended, some insurers even abandoned the 100 per cent premium guarantee completely. They only offer a complete premium guarantee where they are required by law to do so.

Regulatory matters were also high on the list of insurers' priorities in the financial year ended. Be it the European Transparency Directive, the revision of Solvency II or the introduction of new international financial reporting rules (IFRS 17), the implementation of statutory regulations has made it necessary to make extensive adjustments. For many companies, this is a tremendous effort involving an enormous number of resources. In 2021, the European Commission presented its proposed revision of the regulatory regime Solvency II which has been in force since 2016. The legislative procedure currently involves the European Parliament and the European Council. According to the GDV, the amendments should remain balanced because Solvency II has proven itself so far.

In March 2021, the European Commission introduced the Transparency Directive (Sustainable Finance Disclosure Regulation; SFDR) for financial service providers. The directive governs the disclosure obligations of product providers and financial advisors in terms of sustainability in strategies, processes and products. The regulatory requirements also apply to insurance brokers, life insurers and providers of company pension schemes. The Regulatory Technical Standards (RTS) that expand on the directive are expected to apply from mid-2022 onwards. This will increase the amount of regulatory paperwork for life insurers and providers of company pension schemes.

With regard to old-age pensions, the German government has also decided to introduce a digital pension overview. It aims to provide customers with a quick overview of their statutory, company and private pension entitlements. The German Pension Overview Act (RentÜG) came into effect on 18 February 2021. The law requires all providers of private and company old-age pensions to connect to the portal if they are obliged to send regular summaries to their customers while they are paying into the pension. After a 21-month development phase, the platform is set to go live in autumn 2023.

Finally, the launch of a voluntary Pan-European Pension Product (PEPP) has been decided on a European level. The regulatory technical standards were defined in March 2021. PEPP is to be available throughout Europe, although providers will have to meet strict criteria before they are permitted to offer it. The European pension is designed to be complementary to existing state, statutory and occupational pension systems. Potential providers of the pension include insurance companies, company pension funds, banks and administrators of alternative investment funds.

Digitisation also remains at the top of the agenda for the German insurance industry. In particular, digitisation has been accelerated greatly by the Covid-19 crisis. Digitised business processes enable the ever-greater integration of systems across divisions, segments and company boundaries. That makes it possible to exploit the potential represented by the standardisation and automation of processes to a greater extent. Fully automated processes lead to enormous gains with regard to efficiency as well as significantly lower costs.

Insurers' expenses on IT also reflect the relevance of digitisation: according to the GDV, the insurance industry invested around 5.6 billion euros in its IT in the 2020 financial year, compared to around 5.5 billion euros in 2019. At 2.55 per cent, the IT cost ratio (the ratio of IT expenses to companies' gross premium income) remained almost constant. According to the GDV publication 'Insurance IT: A key to greater sustainability' published in January 2022, software standardisation, the replacement of legacy systems and cloud computing are among the most important IT projects. According to Branchenkompass Insurance 2021, the replacement of legacy systems with cloud computing IT is considered a recurring theme in the industry. It reports that more than 60 per cent of insurers are currently working to migrate to cloud-based solutions.

In Europe, the insurance industry largely managed to remain on track in 2020, the first year of the pandemic, according to the European Insurance Study 2021 published by Zeb Consulting in December 2021. Although insurers did have to accept larger drops in profits and premiums in some cases, the industry was in good overall condition when it was hit by the crisis, enabling it to mostly remain profitable. Even the European Insurance and Occupational Pensions Authority (EIOPA) describes the European insurance industry as 'fundamentally robust'. This is demonstrated by the results of the stress test 2021 that were published in December 2021. The test included 43 major European insurance groups, including five from Germany.

Likewise, insurers in the USA have survived the crisis relatively well. This is the conclusion of the article entitled 'Der Versicherungsmarkt USA im Blick' ('A look at the US insurance market') published by the R&D service provider Versicherungsforen Leipzig in December 2021. It states that gross premiums grew by 0.6 per cent overall in 2020. Although growth of 1.2 per cent was achieved in the non-life segment, life premiums decreased by 1.4 per cent. With gross premiums of 2.5 billion dollars, the US insurance industry is a global market leader: the USA accounts for more than 40 per cent of the global market.

Development of business

In the German-speaking market, the msg life Group is the market leader with the services and products it offers for life insurers and pension fund institutions and more than half of all leading life insurers in these countries are its customers. The Group's research and development activities are aimed at continuously reinforcing its leading position. With the regulatory requirements still changing constantly and the increasingly dynamic variety of products, insurance companies are increasingly pursuing a strategy of replacing their previous in-house software solutions with standard software.

msg life's products and consulting services are now a fixed part of the msg Group's portfolio for the insurance industry. And as an associated company in the msg Group, msg life is an even more significant strategic partner for its customers and an even more attractive employer for the employees.

In the TRAIL.X (TRustworthy Artificial Intelligence in Life Insurance) project that was launched in 2021, msg life and the Ludwig Maximilian University of Munich are developing deep neural networks (DNNs) for the actuarial computation module. These will enable life insurers to replace old system generations, map their core functions with artificial intelligence and integrate them into a modern system. Actuarial functions will be transferable automatically with AI and connected to a modern policy administration system. Trustworthy AI and automated machine learning are two topics that play an important role in this context.

The project breaks new technological ground and will create a fundamentally new hybrid technology at the point where machine learning, software development and actuarial mathematics intersect. The work ties in closely with the work in an ongoing migration project for an msg life customer and will be subsidised for three years by the Bavarian Ministry of Economic Affairs, Regional Development and Energy (StMWi).

Business with existing customers in 2021 was characterised by extremely stable, successful projects as well as a continuous flow of new contracts. The company expects these developments to continue in 2022.

msg life was able to achieve sales successes in almost every region in which the company operated in 2021:

In the German-speaking market, the contracts for a proof of concept relating to the potential rollout of msg. Insurance Suite were signed with a well-known life insurer and, shortly after the end of the reporting period, a start-up life insurer. Furthermore, the long-standing customer HUK-Coburg awarded contracts to roll out msg.RAN and msg.Tax Data. Likewise, the company was awarded contracts to roll out msg.Tax Data from Öffentliche Versicherung Braunschweig and AXA Lebensversicherung AG. ERGO also placed an order to introduce msg.Life Product, the mathematical component of msg. Life Factory.

msg life is also cultivating the Benelux market intensively from the German-speaking countries. After gaining AEGON in the Netherlands as a customer in 2020, msg life is generating interest there with its range of products, especially from insurance groups which operate nationally.

The business of msg life in the United States for primarily health and group insurers was satisfactory up to the end of the reporting period. FJA-US, Inc. – the msg life Group company located in the United States – recorded continuous successful development with solutions such as the Unified Distribution Platform, the Unified Product Platform and the web-based multi-channel platform msg.Sales. In the 2021 financial year, the company attracted two new, well-known customers from the health and life insurance segments and recorded overall growth in customer demand for services.

The range of services offered by msg life in the United States encompasses not only software products and technical consulting services on all aspects of product and tariff structuring, but also operator models – with the latter generating growing interest in the market. In 2021, the company's gained its first customers for such an operator model (i.e. SaaS) in which the customer pays a fee to use and operate the software.

msg life serves the Spanish and Portuguese markets with an office in Spain and its own local office in Portugal which is now also being used as a product development unit. The development of msg life's business with existing customers in that market was positive again in 2021 and it successfully managed to launch the project for its new customer, the non-life insurance company SegurCaixa Adeslas. Moreover, an acquisition was completed successfully for Mutual Medica in Spain and the project began shortly after the end of the reporting period. msg life continues to expect sales successes in that market in the current year.

msg life is serving the Central and Eastern European markets as well as other niche markets and segments from Slovenia in particular; as German-language insurers are particularly striving to access these highly competitive markets, they regularly offer interesting sales opportunities for msg life. The company has a presence in many Eastern European countries with the Unified Administration Platform (UAP). As a result of the growing consulting business that is developing in connection with its local presences, msg life expects these markets to generate cross-selling effects. In the reporting period, SwissCaution awarded a contract to roll out the UAP. msg life received another contract for this system from Calingo Insurance AG in Switzerland, as well as from Zurich Cantonal Bank shortly after the end of the reporting period.

As previously reported, there were numerous new orders for msg life in 2021 and the company expects relevant new business in the 2022 financial year. Business with existing customers in connection with the software components was also strong. Additionally, nearly all of the major projects set out in the corporate plan were executed in the reporting period. As in previous years, msg life focused on sales projects in well-established markets in particular in the 2021 financial year.

During the reporting period, msg life continued to work on the introduction of an information security management system (ISMS). Significant aspects of the establishment of the ISMS are the definition and implementation of more security guidelines in the software development process and other technical, HR and IT processes – with the objective of subsequent certification pursuant to the internationally recognised standard ISO:IEC 27001. The internationally recognised institute TÜV Rheinland is accompanying the process as certifying body.

Summarised evaluation of the company's business situation

The 2021 financial year was another strong year for the msg life Group. Numerous sales successes with the corresponding licence income, the very stable business with existing customers and continually low travel costs due to the still-ongoing coronavirus pandemic resulted in the targets set at the beginning of the financial year with regard to the financial key performance indicators of Group revenue from its own business (HGB) and Group earnings (HGB) being exceeded.

In the reporting period, the msg life Group recorded gross Group revenue from its own business under German GAAP of 176.1 million euros and Group earnings before interest, taxes, depreciation and amortisation (EBITDA) under German GAAP of 17.9 million euros.

The business situation of the company in the 2021 reporting year can be described as positive overall. The foundations exist for positive development in 2022 and beyond. Last year's prognosis in the separate financial statements forecast positive net results for the year; as the holding company, the individual Group company finished the 2021 financial year with net profit of 10.8 million euros.

Non-financial performance indicators

The msg life Group's efficiency is reflected not only in its commercial indicators, but also in its non-financial performance indicators. The most important of these in the msg life Group are the issues that concern its employees. The relevant disclosures can be found in the 'Employees' chapter within this condensed management report and Group management report.

Earnings, financial and assets position

The following disclosures regarding the earnings, financial and assets position of the Group by 31 December 2021 are based on the German Commercial Code (HGB).

The Group's earnings position

DEVELOPMENT OF TURNOVER

As at the balance sheet date, there were no changes to the consolidation group described in the consolidated financial statements for the 2020 financial year as at 31 December 2020.

The msg life Group's turnover in the financial year ended amounted to 193.8 million euros, which is 6.3 million euros higher than the figure for the 2020 financial year, corresponding to growth of 3.4 per cent.

During the financial year, service turnover increased by 8.5 million euros from 141.7 million euros to 150.2 million euros. As at 31 December 2021, service turnover makes up 77.5 per cent (previous year: 75.6 per cent) of total turnover. Product-based turnover overall was down by 2.2 million euros to 43.6 million euros (previous year: 45.8 million euros). In terms of product-based turnover, licensing income came to 14.1 million euros in the reporting period (previous year: 18.7 million euros), which represents 7.3 per cent of total turnover (previous year: 10.0 per cent). Maintenance turnover came to 23.6 million euros in 2021 (previous year: 21.0 million euros) and therefore makes up 12.2 per cent of the total turnover (previous year: 11.2 per cent).

The other turnover largely comprised computing centre services in 2021. This figure remained nearly constant in the past financial year at 5.9 million euros (previous year: 6.1 million euros).

As for the regional breakdown of turnover, the aggregate figure for Germany in the 2021 financial year totalled 172.2 million euros (previous year: 159.3 million euros) and 21.6 million euros in other countries (previous year: 28.2 million euros). Consequently, the level of demand for msg life solutions in the German-speaking market remains high.

The msg life Group reported a decrease in turnover in its US business, where turnover fell from 23.7 million euros to 17.6 million euros. Slovenia is the second-strongest foreign market in terms of turnover, with turnover in the 2021 financial year amounting to 1.7 million euros (previous year: 2.1 million euros). In Portugal and Spain, the company experienced a slight increase in turnover of 0.2 million euros to 0.8 million euros. Turnover in Austria was down to 0.2 million euros (previous year: 0.3 million euros), In Switzerland, turnover decreased slightly by 0.1 million euros in 2021, down to 1.2 million euros. At 0.1 million euros, turnover remained stable in the Benelux region.

The national affiliate in Slovakia generates turnover primarily for other Group companies, so that the external turnover it generates is correspondingly low.

The change in inventories decreased by 16.9 million euros from 8.4 million euros to -8.5 million euros in the financial year, causing the gross revenue of the company to decrease by 10.5 million euros to 185.3 million euros, representing a 5.4 per cent reduction. In particular, this effect is due to a project being carried out in cooperation with msg systems ag in which the gross revenue was 15.2 million euros lower than in the previous year.

DEVELOPMENT OF EARNINGS

In the financial year just ended – just like in the previous year – no development work for new software was capitalized. The item other operating income came to 2.0 million euros (previous year: 2.6 million euros).

Total costs in the 2021 financial year amounted to 169.5 million euros (previous year: 183.8 million euros); they decreased by 14.3 million euros, which corresponds to a reduction of 7.8 per cent. The largest proportion of total costs comprised personnel costs at 105.6 million euros (previous year: 105.6 million euros), which represents a share of 62.3 per cent (previous year: 57.4 per cent) relative to the average number of 1,185 employees (previous year: 1,157 employees).

At 44.5 million euros (previous year: 59.5 million euros), procured services represented a large proportion of total costs. The significant decrease in procured services of 15.2 million euros in the 2021 financial year is due to other services which contain expenses of 9.2 million euros (previous year: 25.4 million euros) resulting from the successful delivery of a milestone within the framework of a major project in cooperation with msg systems ag.

Procured services include external freelance staff whose costs amounted to 12.2 million euros in the 2021 financial year (previous year: 10.7 million euros). Procured services cover special requirements such as capacity utilisation peaks due to new projects and, as such, they are a variable element in the total costs.

Personnel costs and material expenses decreased by a total of 15.1 million euros to 150.1 million euros (previous year: 165.2 million euros). The personnel costs are at almost the same level as in the previous year. Other operating expenses accounted for 11.4 per cent of total costs in 2021, an increase compared with the previous year (10.1 per cent), and came to 19.4 million euros (previous year: 18.6 million euros). As in the previous year, the main component of other operating expenses is rent for office space of 7.0 million euros (primarily renting).

Over the course of the Covid-19 pandemic, travel expenses associated with products decreased further and were just 0.4 million euros in the 2021 financial year (previous year: 0.9 million euros). Communication costs decreased slightly, falling by 0.1 million euros from 0.9 million euros to 0.8 million euros. Likewise, consulting, accounting and Supervisory Board expenses decreased by 0.5 million euros to 2.0 million euros in the 2021 financial year (previous year: 2.5 million euros).

As a result, in the 2021 financial year, the Group was able to generate earnings before interest, taxes, depreciation and amortisation (EBITDA) of 17.9 million euros (previous year: 14.7 million euros).

The sum of all depreciation and amortisation decreased by 0.7 million euros to 2.8 million euros (previous year: 3.5 million euros). Depreciation of property, plant and equipment amounted to 2.4 million euros (previous year: 2.7 million euros). Scheduled amortisation of intangible assets amounted to 0.4 million euros (previous year: 0.8 million euros).

Altogether, the positive operating result in the 2021 financial year was 15.0 million euros (previous year: 11.2 million euros).

The financial result amounted to –0.8 million euros (previous year: –0.7 million euros). The Group is completely equity-financed and is not dependent on borrowing.

The Group's income from ordinary activities improved in 2021 by 3.7 million euros, bringing it to 14.2 million euros (previous year: 10.5 million euros). This resulted in income tax expenses of 2.1 million euros for the 2021 financial year, which exactly matches the tax expenditure of 2.1 million euros in the previous year.

After taking into account other taxes, net income for the 2021 financial year was 12.1 million euros (previous year: 8.3 million euros).

The Group's financial position

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management is designed to enable the msg life Group to have the necessary funds at its disposal at all times so that it is capable of taking action in its operating activities to deal with volatility of incoming orders, fluctuations in customers' payment behaviour and investment needs. In the process, all the significant risks to which the msg life Group is potentially exposed must be recognised at an early stage and the necessary scope for suitable protective measures provided for. Within the framework of liquidity management, care is taken that sufficient funds and appropriate liquidity reserves are freely available at all times. In the financial year ended, the msg life Group was able to meet all payment obligations in their entirety.

FINANCING ANALYSIS

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. In general, liquid funds are invested for short periods. Financial liabilities are short to medium term in nature.

With regard to the credit risk (default risk), there are no significant concentrations on individual customers in the Group. Receivables are not insured, primarily due to the high credit rating of the customers in the insurance sector.

Liquid funds in bank accounts decreased by 5.0 million euros and amounted to 17.9 million euros as at 31 December 2021 (by 31 December 2020: 22.9 million euros). Cash pooling exists for the German companies within the msg life Group. Additionally, the Group invested 23.4 million euros in cash in US treasury bonds (previous year: 11.0 million euros), in order to generate interest income on a part of its existing cash holdings. This also means that liquid funds increased by 7.4 million euros to 41.3 million euros (previous year: 33.9 million euros).

In the 2021 financial year, msg life generated an operative cash flow in the amount of 7.4 million euros (previous year: 19.0 million euros). The msg life Group closed the 2021 financial year with earnings before taxes on income (EBT) of 14.2 million euros in total (previous year: 10.5 million euros).

Cash flow from investing activities amounted to -13.0 million euros (previous year: -9.2 million euros), whereby investments in property, plant and equipment, in the form of technical equipment, accounted for 1.4 million euros and the purchase of US treasury bonds for 11.5 million euros.

There were no particularities in the cash flow from financing activities in the financial year ended, and as such it was -0.1 million euros in the 2021 financial year (previous year: 0.1 million euros).

The Group's assets position

ASSET STRUCTURE ANALYSIS

At 57.9 per cent, the equity ratio of the Group as at 31 December 2021 has undergone positive development compared to the previous year (previous year: 53.0 per cent) and equity amounted to 57.6 million euros (previous year: 43.6 million euros). As at 31 December 2021, the Group's total assets are 99.5 million euros (previous year: 82.3 million euros), which represents an increase of 17.2 million euros.

In the reporting year, current assets increased from 74.5 million euros in the previous year to 92.3 million euros. Essentially, this development was due to the fact that securities were 12.4 million euros higher and accounts receivable were 6.9 million euros higher as at the reporting date. On the other hand, liquid funds decreased by 5.0 million euros from 22.9 million euros to 17.9 million euros, which had the opposite effect.

The net total of the line item 'Inventories' has increased from 4.3 million euros to 7.5 million euros as payments received on account and work in progress exceeded the payments received on account of customer projects as at the reporting date. Due to the chosen method of open recognition, the net amount of 7.5 million euros has been recognised under inventories.

Non-current assets decreased on the whole by 1.5 million euros, from 6.6 million euros in the previous year to 5.1 million euros. In the 2021 financial year, property, plant and equipment decreased by 1.1 million euros. Overall, intangible assets decreased by 0.4 million euros to 1.0 million euros. Before they were netted against deferred tax liabilities, the deferred tax assets totalled 0.3 million euros (previous year: 0.4 million euros).

Provisions decreased by a total of 1.8 million euros to 25.8 million euros. Essentially, this change was due to the decrease in other provisions by 2.7 million euros to 17.7 million euros.

All in all, provisions account for 25.9 per cent of the balance sheet total, compared with 33.6 per cent in the previous year.

Liabilities amounted to 13.2 million euros. The increase of 4.4 million euros compared to the previous year is due to the increase in liabilities to affiliated companies of 3.6 million euros to 7.5 million euros, an increase in trade payables of 1.5 million euros and the decrease in other liabilities by 0.7 million euros to 2.6 million euros. The Group has no financial liabilities due to banks (neither current nor non-current). All in all, the ratio of liabilities to total assets increased from 10.7 per cent in the previous year to 13.2 per cent now.

The 2021 financial year was above expectations. This development was caused by numerous sales successes with the corresponding licence income, stable business with existing customers and lower travel costs due to the Covid-19 pandemic. The Management Board of msg life ag expects the earnings, financial and assets position of the company this year to remain at the same level as in the previous year.

Significant events influencing the earnings, financial and assets position of msg life ag in the annual financial statements pursuant to the German Commercial Code (HGB)

EARNINGS POSITION

Compared to the previous year, turnover decreased by 6.5 million euros from 56.5 million euros to 50.0 million euros. This development was driven by turnover from third parties which decreased by 9.4 million euros, and internal turnover (i.e. turnover from companies within the msg life Group) which increased by 2.9 million euros. Other operating income came to 0.4 million euros (previous year: 0.6 million euros).

Expenses for the procurement of services were 11.6 million euros lower than in the previous year and amounted to 28.4 million euros in the financial year ended (previous year: 40.0 million euros).

Both in the 2021 financial year and in the same period in the previous year, the development of msg life ag's turnover and expenses resulting from the procurement of services was mainly due to the interim delivery of a milestone within the framework of a major project with msg systems ag.

At 8.4 million euros (previous year: 8.9 million euros), personnel expenses were just 0.5 million euros lower than the previous year.

The item of depreciation of property, plant and equipment from the separate financial statements prepared in accordance with German GAAP (HGB) decreased slightly to 0.4 million euros in the financial year ended (previous year: 0.5 million euros).

Other operating expenses, mostly consisting of administrative costs with affiliated companies, rent and legal and consultancy costs, bookkeeping costs and Supervisory Board remuneration, increased by 1.5 million euros from 17.1 million euros to 18.6 million euros in the financial year ended.

Under its profit transfer agreements, the company received 16.1 million euros from msg life central europe gmbh (previous year: 14.6 million euros) and 1.0 million euros of income from msg life global gmbh (previous year: 0.8 million euros).

In the 2021 financial year, as in the previous year, the net interest result of msg life ag amounted to -0.4 million euros and mainly comprises interest expenses for pension and anniversary provisions or accrued interest on IC liabilities to affiliated companies.

Income tax expenses amounted to 0.9 million euros in the 2021 financial year (previous year: 0.3 million euros).

Overall, for the 2021 financial year, msg life ag generated a net profit under the German Commercial Code (HGB) in the amount of 10.8 million euros (previous year: 5.2 million euros).

FINANCIAL POSITION AND ASSETS

Non-current assets increased by 0.4 million euros to 58.2 million euros (previous year: 57.8 million euros) because the company made larger investments in new hardware. The scheduled depreciation of property, plant and equipment had the opposite effect. Property, plant and equipment came to 1.0 million euros (previous year: 0.6 million euros).

msg life ag's current assets increased by 14.6 million euros to 53.9 million euros in the financial year ended (previous year: 39.3 million euros). This development is largely due to an increase in advance payments made within the framework of a major project with msg systems ag, as well as trade receivables as at 31 December 2021.

Trade receivables increased by 7.9 million euros to 10.2 million euros (previous year: 2.3 million euros).

Receivables from affiliated companies increased by 1.9 million euros to 3.7 million euros (previous year: 1.8 million euros). Liabilities to affiliated companies decreased by 0.7 million euros to 25.7 million euros (previous year: 26.4 million euros).

As at the reporting date, cash and cash equivalents were 1.0 million euros lower than in the previous year, reaching a balance of 10.6 million euros at the end of the year (previous year: 11.6 million euros). The company was completely equity-financed in the 2021 financial year (as was the case in 2020) and, as such, there were no deferred liabilities to banks.

Equity amounts to 53.2 million euros (previous year: 42.4 million euros), which represents an increase of 10.8 million euros. The net loss decreased to 1.4 million euros (previous year: net loss of 12.2 million euros) due to the current net result for the year, which does not put the company in a position to distribute dividends.

Total assets as at 31 December 2021 amounted to 113.5 million euros (previous year: 97.2 million euros).

Research and development

Focus of R & D activities

For msg life, research and development (R & D) serves not only to develop and expand standard software solutions, but also to extend its consulting expertise. Such expertise manifests itself in the strategic development of employee know-how, as well as in the further development of software tools that give efficient support to the consulting activities. Needless to say, all R & D activities are subject to the imperative of sustainable cost-efficiency.

The msg life Group does not conduct open-ended research, but instead focuses on purely target-oriented research. Special importance is attached to close communication with the market and customers as their assessment of the products' relevance to business success is crucial. The msg life Group therefore attaches a great deal of importance to its cooperation with customers in the user and operator groups as well as with partners (IBM or the msg Group, for example) in relation to its most important products. The approaches devised within the framework of research are presented, discussed and evaluated within the user and operator groups at an early stage and, if required, on a cross-product basis. The evaluation is conducted with particular regard to users' interest in acquiring the product enhancements. In this way, new releases of standard software products are generally partially financed by advance orders from some of the customers.

As there are no user groups that can be accessed for the placement of new products or the opening up of new markets, early customer models are used which reward a customer's early decision in favour of a new product with commercial benefits.

Purchasing R & D expertise

In its capacity as market leader in its core business, the msg life Group is usually unable to have recourse to ready-made external research findings. This particularly applies to specialist thematic areas in the customers' sectors. As a sector-specific service provider, the company prefers to rely on its own research, which builds upon its participation in trade conferences, association activities and joint projects with partner companies. Future trends, too, can usually be identified more reliably on the basis of the systematic reviewing of customer requirements from projects and canvassing situations than on the basis of external surveys. It goes without saying that the qualification level of the Group's employees is updated continuously by means of selective (also external) ongoing training activities. In the technology sector, msg life makes use of rapidly developing standards and non-proprietary technologies right through to freely available open-source products. The company also safeguards the quality of its own technological orientation by maintaining close partnerships with IBM and with selected colleges and universities.

R & D expenditure

The msg life Group's R & D expenditure totalled 11.195 million euros in the 2021 financial year (previous year: 8.934 million euros). Once again, no development expenses were capitalised.

Employees

On 31 December 2021, the msg life Group had 1,204 permanent employees including managing directors (31 December 2020: 1,172 permanent employees).

For the company, the 2021 financial year was again overshadowed by the restrictions on working in offices and on customers' premises due to the pandemic, as well as the extremely high percentage of employees who worked from home. As the company was able to master this decentralised way of working largely without issue in the second year of the pandemic, it has laid a robust cornerstone for the future of work organisation at msg life. The company took the various services it offers to support employees and their families further in 2021, and made further improvements to this field with a service provider and its extensive range of options and services.

In order to find new employees, the company offers recruitment opportunities in various job profiles and at various career levels. msg life uses the networks and expertise of employees within the sector; a recommendation programme has been established and will be expanded. In addition to its own networks, the Internet remains the most important medium for achieving the company's recruitment success. msg life thus places emphasis on using relevant online channels, far-reaching platforms as well as niche job markets, and implements its strategies in the fields of search engine optimisation and search engine advertising by using target-group-specific landing pages.

In the context of its long-term growth long strategy and the related strategic increase in personnel, msg life was able to stabilise the number of applications at a very high level in 2021, the year of the pandemic. The company once again received approximately 3,000 applications. The conversion of all application and onboarding processes to digital formats has been made even more professional. This was and is still being welcomed by applicants and will be a new benchmark even after the end of the pandemic. The year 2021 saw the introduction of the option to have time-delayed interviews, in which applicants are asked individual interview questions in videos and are able to respond with their own recorded answers.

The onboarding process for new employees was almost exclusively remote and digitised in 2021. msg life has been holding welcome and introductory events for all new employees for years. In the course of these onboarding sessions, the strategic orientation of the company is presented, as well as its targets in each field of business. The aim is also to give the new colleagues a broad network within the entire company as quickly as possible. In 2021, msg life took on the challenge of supporting new employees with a structured onboarding scheme. Innovative online collaboration formats, which are now well established, advanced and more professional, were used for these purposes.

In the interests of ongoing professional training, msg life is also continuing to support the extra-occupational training course for actuaries at the German actuarial association Deutsche Aktuarvereinigung (DAV).

msg life promotes employees as part of its in-house 'life talent' programme. Using a structured selection process, employees are identified as talents if they are developing very quickly and positively and they have the potential to take on a strategic and leading role in the company in the future. Within the programme, the participants identify their own strategic topics, work independently on questions and projects and take their results back to the company with the approval of the Management Board. In addition to individual support and professional development of the employees, the central goals of the programme, which starts on an annual basis, is good networking and long-term retention of the talents in the company, as well as allowing knowledge to be transferred as broadly, quickly and pragmatically as possible, in particular with regard to new topics. Within this context, the practised reality of flat hierarchies at msg life is both the foundation as well as the target of the successful implementation of the programme. The talent programme will be expanded and extended with a high-potential programme from 2022 onwards.

The remuneration model used by the company is continuously developed in a targeted fashion. It focuses on the roles and performance of fairness and employees, ensures that remuneration continues to meet the market standards and serves as a key benchmark for structured, individual salary changes.

In 2021, msg life continued to digitise its entire range of qualification courses systematically. In Qualification Suite, the company now has a modern and powerful learning management system which bundles all training and qualification topics and the associated processes into a single platform. This platform offers the ability to manage purchased training courses and the company's own qualification content in equal measures, to develop the content further and to provide these to the relevant target groups. Moreover, the system's ability to support multiple clients and languages allows for the flexible integration of additional user groups such as customers and the foreign subsidiaries of the company, something which was done in the USA, Portugal and Slovakia in 2021.

As part of the opening of new international insurance markets, the company continued its far-reaching qualification campaign in 2021 with regard to the English skills of employees.

In particular, the rapid availability of training content for changing target groups is a fundamentally crucial factor in the development of additional training formats. Numerous advanced training opportunities are also available, including from internal speakers in certain subjects.

Other legal and economic factors

Shareholders' rights and duties

Shareholders have property and administrative rights. The property rights include, in particular, the right to participate in profits (section 58, paragraph 4, of the German Stock Corporation Act – AktG) and liquidation proceeds (section 271 of the AktG), as well as pre-emption rights to shares in the event of capital increases (section 186 of the AktG).

The administrative rights include the right to attend the annual general meeting and speak, ask questions, put forward motions and exercise voting rights. Shareholders can assert these rights by initiating, in particular, actions for information and rescission.

Each share guarantees one vote at the annual general meeting. The annual general meeting elects the members of the Supervisory Board and the auditor of the financial statements; it decides, in particular, on the formal approval of the actions of the members of the Management Board and the Supervisory Board, alterations to the articles of incorporation, corporate action, empowerment to acquire treasury shares and, if required, the conducting of a special audit, the premature dismissal of members of the Supervisory Board and a dissolution of the company.

Opportunity and risk report

General

All the following estimations regarding opportunities and risks were made on the reporting date, 31 December 2021.

In the type of business it conducts, the msg life Group is exposed to a large number of uncertainties which, if realised, can affect the Group's earnings, financial and assets position, and that of the company, either positively or negatively, or result in msg life falling short of or exceeding the targets it has set itself for the future development of its business.

Among the Management Board's most important tasks in the overall management of the Group are, in close coordination with the Supervisory Board, laying down general conditions and processes of risk management for the msg life Group, monitoring the degree of compliance with them and, in conjunction with the heads of the operating units and the administrative departments, regularly analysing the development of risks in the respective segments.

The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Organisation & IT Services division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed.

The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a monthly controlling and reporting system.

The early risk detection system of msg life ag proved successful in 2021 as well and it was not necessary to revisit it. The entire procedure is described in the risk management manual and was approved by the Risk Board (risk manager and Management Board). The employees responsible for this field were trained accordingly. As part of the ongoing ISO 27001 certification project, the management of information security risks has been expanded further within the overriding central risk management system.

In accordance with the current version of the guideline, monthly reports were prepared on the most significant risks and the operative and central divisional managers and employees with special positions in terms of risks were surveyed three times per year. The Risk Board met three times in 2021. At the same time, data protection, the company's internal auditing, IT security and compliance management were incorporated into the early risk detection system. The corresponding risk report for 2021 was presented to the Supervisory Board in February 2022.

In 2021, the msg life Group's profile did not change significantly with regard to the main types of opportunity and risk areas to which it is exposed. Below, individual types of risk that are identified as being important are explained in greater detail. The specification of these risks does not imply that other risks which have not been mentioned will not have a significant impact on msg life's earnings, financial and assets position.

Strategic opportunities

msg life regards the continuation of regulation throughout the insurance sector as a direct consequence of the financial crisis. Like the ongoing low-interest phase, this regulation is necessitating a great deal of adaptation with regard to the solutions currently used in the insurance sector and is reinforcing the trend towards the use of standard software and cross-sector platform solutions – such as those offered by msg life. At this time, the situation in the insurance market is proving to be an opportunity for the company, as demonstrated by the new contracts over the past few years and current sales projects.

In the past, the Group company FJA-US, Inc. profited from the Patient Protection and Affordable Care Act (Obamacare) which was enacted in 2013 in terms of both turnover and earnings. After the Patient Protection and Affordable Care Act suffered from a lack of support from the Trump administration, the Biden administration pressed on with an improvement to the Patient Protection and Affordable Care Act in late 2021 in the form of the Build Back Better Act. As a result, state healthcare programmes such as Medicare, Medicare Advantage and Medicaid can be expected to grow further. Thanks to its now well-established partnerships with leading providers such as Companion Data Services, the msg life Group company in the USA can offer end-to-end services including claims handling. Additionally, the company successfully expanded its related activities in the health and group insurance market and further diversified its range of services.

Opportunities from regulatory developments

Regulatory adjustments as a result of legislative amendments are generating additional demand for consulting services and new or modified products among existing customers and, if integrated quickly into the products on offer, can constitute a crucial competitive advantage. Consequently, as described in detail in the 'Research and development' chapter within this condensed management report and Group management report, the relevant R & D activities at msg life serve, firstly, the further development and enhancement of standard software solutions, and secondly, the expansion of available expertise on consulting topics.

Product- and service-specific opportunities

In addition, msg life's employees are crucial to the company's innovative power and the customers' value added – and are therefore instrumental in the growth and profitability of the msg life Group as a whole. More information about the future opportunities being generated by msg life's employees can be found in the 'Employees' chapter within this condensed management report and Group management report.

Risk assessment

The following risks are listed in descending order based on their estimated probability of occurrence and impacts. Additionally, unless indicated otherwise, the following disclosures concern all the fields of business.

Project and product risks

The main potential source of risk in the course of operating activity lies in the calculation of the complex projects and in their organisational, functional, technical and commercial handling. These risks are controlled and monitored by means of the valid Group-wide standards for project and project risk management. The risk nevertheless remains that projects cannot be realised profitably for the msg life Group because costs exceed the agreed budget, deadlines cannot be met or the services rendered fail to comply with the agreed functional specifications or the required quality, and the msg life Group will therefore have to grant a discount or pay compensation. The overall risk profile of all ongoing projects was further reduced in 2021. The existing risks of individual projects have been appropriately taken into account for 2022. The cumulative occurrence in multiple projects could, however, lead to negative effects.

In the 2021 financial year, particular attention was paid to the potential impact of the current Covid-19 pandemic on the company. The company was quick to take comprehensive action in order to remain operational including, in particular, providing all employees with the necessary hardware and software to work remotely from home and moving almost all work to cyberspace both quickly and consistently. Nevertheless, there is a risk that msg life employees fall ill and are unable to work on customer projects or that customers are unable to perform the necessary supporting services. In turn, it might not be possible to reach agreed project milestones on time or at all, resulting in a negative impact on the economic development of the company. Looking at the 2021 financial year, it is once again evident that none of these risks arose and, for this reason – and also because of the steps taken by msg life and the performance of its project business in the current financial year 2022 – the company still sees no significant effects on its operating and financial performance as a result of the Covid-19 pandemic at the time these financial statements were prepared.

Like all software products, the msg life Group's products can have defects whose elimination under guarantee increases costs and thereby influences the profit margin or even leads to compensation claims against the msg life Group. The msg life companies generally assume the warranty which is customary in the industry. As far as possible, liability obligations are limited contractually to the legal minimum and are secured with appropriate liability insurance policies. It can nevertheless not be entirely ruled out that contractually agreed limitations on liability will be regarded as invalid and the existing insurance cover will be available to an insufficient extent or not at all – even if this is improbable.

The msg life Group also uses software from external suppliers in its own software products. This third-party software can contain defects that might have an adverse effect on the functional capability of the msg life Group's own products. Problems in the execution of projects and software defects that can occur in the operation of software produced by msg life can do lasting damage to the reputation of the msg life Group and thereby have a substantial impact on the future course of business.

Personnel risks

msg life's success depends crucially on the skills, qualifications and motivation of its employees. Certain employees in key positions are particularly important in this respect. If msg life is unable to get these employees to commit themselves to the company or to recruit qualified and skilled employees and develop them further on a continuous basis, msg life's success can suffer significant adverse effects due to the resultant loss of expertise. In addition, an excessive burden on the company's own employees could necessitate the deployment of expensive external capacities if the risk of quality losses in project development is to be averted. This applies particularly when the likely demographic trends are taken into consideration. In connection with this, msg life will be affected particularly by the probable decline in graduate numbers, the resultant competition to recruit them and the increasing costs this will lead to.

msg life counters this risk with an extensive set of measures. A continuous exchange of views with the employees on all factors affecting their work environment at standardised interviews with a facility for qualified feedback, internal training to prevent monopolies of knowledge and skills, on-the-job graduate training and the recruitment of suitable people through all of the usual market channels are just a few examples of these. In addition, the leadership guidelines for managers are designed to strengthen the employees' identification with the company.

Economic risks

The general economic trend affects the behaviour of potential customers as far as their investment in IT infrastructure and their expenditure on ongoing management consulting are concerned. An economic downturn could reduce the volume of the market on which msg life has trained its sights. Any capacity adjustment measures which are regarded as necessary to counter such developments might take effect only after a time lag and would lead to restructuring costs. With the volume-related remuneration models, a delay in portfolio growth caused by the general economic situation could result in a postponement of the planned diminution in fixed costs.

In the event of demand falling as a consequence of economic crises, msg life assumes that this would take effect rather more slowly among existing product customers because, in that segment, loyalty to the solution deployed ensures that any requisite adjustments will also be ordered. With regard to new customers, postponements of planned investments can lead to reductions in turnover, especially in product business.

All of the aforementioned economic risks also apply to the current Covid-19 pandemic. In light of the development of its business with new and existing customers and its project business in the reporting period and in 2022 so far, the company does not foresee any significant impact on its economic or operational development at the time of writing of these annual financial statements.

The aforementioned economic risks also apply to the Russian invasion of Ukraine in February of this year and the resulting economic sanctions against Russia. It is impossible to judge the economic effects of this crisis on the course of business of the msg life Group in 2022. At the time of preparation of the annual financial statements, however, msg life does not expect any significant changes to its economic or operational development.

Competition risks

With its solutions, msg life is a leading sector-based service provider for life insurers and pension funds in Europe and in particular for health and group insurers in the United States. This has led to a concentration and therefore an increase in market development risks. At the same time, this increases the company's profitability. msg life will therefore attempt to persevere with its existing strategy, including in its current product segments and regional markets, and to cover entire value chains and product ranges with its solutions. In this way, it hopes to achieve a decisive competitive advantage on the market, particularly vis-à-vis new competitors with aggressive pricing policies.

Technological risks

As with all comparable companies, the functional capacity of the business processes is also dependent on the availability and secure operational capacity of the IT infrastructure. External events such as fire, lengthy power or network failures, operational errors or acts of sabotage can, among other things, render the IT infrastructure inoperable. The msg life systems, and also those of its customers, can succumb to viruses which damage and incapacitate the systems or the network. Internal or external attacks can damage, distort or delete information and can result in confidential data and information being accessed. The probability and the extent of damage caused by viruses and hackers, by unauthorised persons accessing the IT system and by confidential information being accessed cannot be estimated to the fullest extent.

Recovery expenses, loss of production and recourse claims from customers and third parties as a result of system breakdowns or attacks could cause significant damage which, in turn, could influence earnings and endanger the future of the company.

Since IT security is strategically significant, extensive technical and organisational steps are, as far as possible, taken within the framework of the IT security concept. These steps include restrictive authorisation and access controls, regular backups and penetration tests and adequate contractual arrangements with service providers for outsourced systems and telephone and other communication links. In order to provide protection against penetration by viruses, the latest software available on the market is deployed as a matter of principle. Access restrictions prevent potentially infected software from being installed on the msg life computer network without authorisation. Defined security requirements limit access by unauthorised persons and ensure that data is protected. Financial loss is limited by appropriate insurance policies.

Risks from takeovers

msg life is currently interested in expanding its market position in German-speaking countries and internationally, primarily through organic growth. This can also be supported in parallel by strategic acquisitions. The success of an acquisition is dependent upon whether the acquired company can be successfully integrated in the Group structure and the desired synergy effects can be generated.

Liquidity risks

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments.

Liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that losses from both borrowing capital at excessive interest rates as well as investing surplus funds at interest rates below the market level should be avoided.

Because of the company's current holdings of cash and cash equivalents, msg life ag considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

As at the balance sheet date, the company had loan agreements with three banks totalling 7.500 million euros. As at the reporting date, the loans had been used in the amount of 1.560 million euros for security deposits.

Risk reporting in respect of the use of financial instruments

Objective and methods of financial risk management:

Financial risk management is designed to put the msg life Group in a position to recognise all the significant risks to which it is potentially exposed at an early stage and to take appropriate countermeasures.

The potential risks to the msg life Group associated with financial instruments consist notably of liquidity risks – which can result in a company being unable to raise the funds needed to settle its financial liabilities – currency risks resulting from its activities in various currency areas, default risks arising from the non-fulfilment of contractual obligations by contracting parties and interest rate risks caused by movements in the market interest rate leading to a change in the fair value of a financial instrument and interest-related cash flow risks, which lead to a change in the future cash flows of a financial instrument due to changes in market interest rates.

Organisation:

The company has organised its risk management process along clear, functional lines. Specific tasks have been assigned to the individual organisational units involved in the risk management process. More information is available under 'General' in this section.

Credit risks (default risks):

Credit risk arises from deteriorating economic circumstances of the company's debtors or counterparties. Firstly, this results in a risk of partial or complete default on contractually agreed payments and, secondly, in a reduction in the value of financial instruments due to a poorer credit rating.

Credit risk management is responsible for the operational measurement and management of credit risks. Its functions include, in particular, monitoring credit risk positions and exposure and analysis of credit ratings.

In terms of credit risk, the Group is only exposed to risk in relation to trade receivables. Adequate valuation allowances have been made to cover the estimated default risk. As the credit rating of clients in the insurance industry is generally good, the receivables are not insured. The maximum default risk is in principle equivalent to the nominal values less the valuation allowances. There is no other loan collateral and there are no other risk-mitigating agreements (such as guarantees, land charges or pledges) in place. Usage reservations exist until payment is complete. For invoiced receivables, the net balance of additions to and reversals of valuation allowances was 819,000 euros (previous year: 14,000 euros). On each effective date, trade receivables do not include any carrying amounts for which terms have been renegotiated and which would otherwise be overdue.

With regard to the analysis of trade receivables which are overdue but not impaired as at the end of the reporting period, the reader is referred to section IV 'Notes on the statement of financial position', number 3 'Trade receivables' in the notes.

There are no default risks in relation to cash and cash equivalents. These are invested at banks with good ratings.

There are no significant default risks in relation to other financial assets.

Liquidity risks:

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. Liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that losses from both borrowing capital at excessive interest rates as well as investing surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, the msg life Group considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

In addition, as at the reporting date, there are credit lines with banks amounting to 7.5 million euros, of which 1.560 million euros had been used at the reporting date for security deposits.

In the 2021 financial year and in the previous year, no income from debt waivers was realised.

Market risks:

Market risks result from changes in market prices. These cause the fair values of financial instruments or future cash flows relating to them to fluctuate. Market risks encompass interest rate, currency and other price risks (such as commodity prices and share prices).

Price risks:

The msg life Group is not exposed to any price risks.

Interest rate risks:

Interest rate risks result from a fluctuation in the fair value or future cash flows of a financial instrument due to changes in market interest rates.

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. There are no significant interest rate risks in relation to its financial assets. The investment of cash and cash equivalents is done on a short-term basis and undergoes the normal market fluctuations. On the condition that all other parameters remained unchanged, the company assumes that interest rates were ten base points lower (higher) in the reporting period. In this case, the net result for 2021 would have been 8,000 euros lower (higher) (previous year: 8,000 euros lower (higher)) and the equity components would have been 8,000 euros lower (higher) (previous year: 8,000 euros lower (higher)).

In the reporting period as well as the previous year, there were no (interest-bearing) financial liabilities with variable interest rates.

Currency risks:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

For the most part, the operating companies of the Group carry out their business activities in their respective countries. The Group – with the exception of the United States – is therefore not exposed to any significant currency risks in its operating business. A total of 90 per cent of its revenues are generated in eurozone countries (previous year: 87 per cent), and the remainder in Switzerland and the United States. The currency risk on the asset side in relation to trade receivables comes from receivables not denominated in euros, accounting for 15 per cent (previous year: 13 per cent). In the case of trade payables, currency risks occur in relation to the 3 per cent of liabilities not denominated in euros (previous year: 5 per cent). Differences arising from currency conversion of financial statements from a foreign currency to the Group currency for the creation of consolidated financial statements do not affect currency risk because the respective changes in foreign currency are recognised under equity with no effect on income.

Information on risk concentration (concentration risks):

The company does not have any dependencies on the procurement side. On the sales side, there tend to be concentrations of risk due to the geographic distribution of turnover. For example, Germany accounts for an 88.8 per cent share of turnover (previous year: 85.0 per cent).

Within trade receivables, there is no significant concentration on individual customers. In the year under review, the ten largest customers accounted for a 64.0 per cent share of turnover (previous year: 61.1 per cent) and a 33.7 per cent share of trade receivables (previous year: 37.9 per cent).

With regard to cash and cash equivalents, there is no concentration on individual institutions.

Overall assessment of the opportunities and risks

msg life believes that, in light of the likelihood of their occurrence and their effects, the risks described above do not represent a threat to the company's continued existence either individually or as a whole. Senior management remains confident that the Group's earning power constitutes a solid basis for the future development of its business and will generate the resources that will be necessary for the Group to pursue the opportunities that present themselves. In view of its leading position on the market, its functional and technological innovative power, its committed employees and its processes for the early identification of risks, msg life is confident that, in 2022, it will again be able to deal successfully with the challenges that arise from the aforementioned risks.

Forecast

Market and competition

With more than 1,200 employees at sites in Germany, the Netherlands, Austria, Switzerland, Slovakia, Slovenia, Portugal, Spain and the United States, msg life is very well positioned in the field of software and consulting services for insurance companies and pension fund institutions. msg life's wide range of digitised products and services for life insurance companies in Europe and, in particular, health and group insurance companies in the United States, gives it excellent market opportunities and a promising competitive position.

In connection with its ongoing internationalisation strategy, msg life and IBM have entered into a partnership to open up new insurance markets. The goal is to significantly increase the competitiveness of international insurance companies through a fully digitised end-to-end solution, thereby securing their future.

In the past, the strategic presence of msg life in each foreign market was an important success factor when it came to attracting new customers. It is also becoming more and more apparent that Group companies want to put the solutions implemented for one region at the disposal of other Group companies in other countries – which can advance the ongoing internationalisation of msg life as a service provider for its customers. Besides the established partnership with IBM, the objective in the 2022 financial year is to press ahead with major sales projects, especially in the established foreign markets, as in the 2021 financial year.

The Benelux countries are an important market in this regard, where msg life, in cooperation with IBM, gained its largest new customer so far in AEGON in the Netherlands, and is now working on the related introductory project.

The Austrian market is also a cornerstone of msg life's international activities: msg life has enjoyed a number of highly significant successes there in recent years. The placement and further development of the consulting portfolio for the German-language markets and the marketing of msg life products in the countries of Central and Eastern Europe is carried out from Vienna. On the Swiss market, too, msg life sees good prospects for the further expansion of its business and is represented with its own offices and by various well-known life insurers such as AXA and Schweizerische Mobiliar. An innovative, AI-based and previously unique migration solution developed by msg life will be used at AXA in 2023 in the context of the acquisition of the legacy portfolio.

msg life has a direct presence in Central and Eastern Europe with its subsidiaries in Slovakia and Slovenia. Moreover, the Iberian Peninsula is a highly interesting market which is cultivated by msg life's offices in Portugal and Spain. msg also uses the location in Portugal as a product development unit.

With regard to the US market, msg life is currently examining whether it would be possible to deploy a localised version of its portfolio of European life insurance products in connection with its specific US products as an integrated solution. Overall, msg life continues to enjoy steady growth in the various insurance sectors in the US market and intends to exploit the potential for business that this represents. In addition to the implementation and integration of specific software products, the range of services offered by msg life encompasses a variety of consulting services in connection with product and tariff modelling, for example, as well as operator models – these are generating growing interest in the market.

The target group of the msg life Group company there is predominantly health and group insurers and, in future, will also include life insurers on the basis of the US product portfolio. The expansion and diversification of the company's own range of solutions and partnerships with specialised service providers are being used to unlock new customer groups. Now that the Biden administration has built on the Patient Protection and Affordable Care Act, msg life expects the state healthcare programmes such as Medicare, Medicare Advantage and Medicaid to grow further with the sales opportunities this provides. In the US market, msg life is also examining the potential for a commercial partnership in the field of health insurance.

Following an excellent 2021 financial year, msg life is registering a high level of demand for solutions in the first quarter of the current 2022 financial year – from insurance companies in Germany and other countries in equal measure. In this context, msg life also expects to see further regulation throughout the financial services sector. Be it the revision of Solvency II, the new international accounting standard IFRS 17, the European Transparency Directive, the rollout of a digital pension overview or the introduction of PEPP, the ongoing implementation of numerous regulatory requirements necessitates comprehensive changes to the solutions which are currently used and ties up vast amounts of insurers' resources. This means that the use of versatile, cost-effective standard software remains highly attractive throughout the insurance industry.

Consequently, the German-speaking market will remain very challenging for all insurance companies this year and probably in the years to come. The ongoing trend towards internationalisation and consolidation is another factor and, given the efforts to reduce costs and increase efficiency within insurance companies, there is a clear correlation between modern and flexible IT on the one hand and corporate success on the other.

Despite persistently difficult general conditions, private life insurance cover remains indispensable in Germany in view of the demographic trend and the necessity of covering against biometric risks. In the process, almost all insurers are striving to enhance their existing product ranges and develop new, innovative ones – this goes for all existing product groups, control layers and legal forms. The companies' starting situations and the pressure on them to innovate vary and are consequently bringing about a variety of innovations. The focus is on products that tick more than one box at the same time: products that satisfy the desire of the policyholders for security, returns and flexibility, meet the needs of the insurer in terms of more efficiency and profitability and comply with the regulatory requirements at the same time.

In terms of the conventional capital accumulation products, modifications of the guarantees are dominant, for example through the use of current calculation guidelines or by dispensing with the annual interest guarantee. With the biometric products, too, there is a great deal of action on the market. Dynamic hybrid products have become the standard now and there is a continuous flow of innovative products in addition to them which allow, for example, investment in funds, but also the purchasing of options on the basis of traditional basic cover. Insurance companies at the larger end of the scale in particular are offering products for old-age provision with capital guarantees on the basis of unit-linked approaches with investment guarantees.

Given the current challenges, microservice-oriented architectures designed to quickly support modified business models and high system versatility for the rapid introduction of innovative products are factors crucial to the success of insurance companies. The developments in insurance products described above are typically not associated with particular product families. The platform economy is also playing a key role in the insurance industry this year: numerous insurers are now using platforms and ecosystems to provide digital products and services beyond what had previously been their core business – this in turn is opening up new ways to create value.

Artificial intelligence (AI) is also becoming increasingly relevant as a topic. The use of AI (and automated machine learning at its heart) not only improves efficiency through automation, but also facilitates new technical approaches which in turn pave the way for entirely new business models, services and products. In connection with AI, insurers are also concentrating on robo-advisers, advanced analytics and blockchain.

For one, msg life is responding to this with the TRAIL.X project, where deep neural networks (DNNs) are being developed for the actuarial computation module in cooperation with the Ludwig Maximilian University of Munich. These DNNs will enable life insurers to replace old system generations, map their core functions with artificial intelligence and integrate them into a modern system.

For larger insurance companies, the acquisition of closed insurance contract portfolios that are no longer available for sale ('run-off' portfolios) from mainly smaller insurance companies remains an important factor. This enables the latter to generate positive effects for their books, and buyers can generate significant economies of scale and cost synergies. Modern asset management with modern and powerful IT systems plays a decisive role in this regard as well in the more efficient management of contracts.

The digitisation of our economy and society has been accelerated greatly by the Covid-19 pandemic and remains one of the most significant challenges facing the German insurance industry. Digitised business processes enable the ever-greater integration of systems across divisions, segments and company boundaries. That makes it possible to exploit the potential represented by the standardisation and automation of processes to a greater extent. Fully automated processes lead to enormous gains with regard to efficiency as well as significantly lower costs. The subjects of customer centricity and individualisation, industrialisation and automation, analytics and data effectiveness, and standardisation and integration are at the heart of the digitisation trend. Insurers are increasingly committed to cloud solutions with which IT capacities can be adapted to meet the level of demand in a flexible manner.

With digitisation, modern insurance products and services can be made available on new channels or integrated into new sales and cooperation platforms; all of this requires extensive changes to the IT landscapes of insurers in order for the new technology and platforms to be integrated and is taken into account by msg life when it develops its products and services. The company already has SaaS and cloud-based solutions to support its customers with the digitisation process, thanks in no small part to its strategic collaboration with IBM.

In light of these developments, msg life anticipates that insurance companies will show a general interest in the software and consulting solutions it will be offering in 2022.

Further development of products and services

msg life is pressing ahead with the further technical and functional optimisation and completion of its product range in the fields of life insurance and pensions. The necessary investments for this are being kept at a relatively normal level for a software company in the current year.

Continuous delivery, an important strategic element, will continue to be implemented in 2022 in order to further optimise the development process with and for customers.

The full convergence of the components of msg.Insurance Suite, the central, common insurance platform of the msg Group, and the sales-related collaboration taking place in this context remain key aspects of the product strategy. msg.Insurance Suite is a holistic industrial standard for all sectors of the insurance industry and is therefore a unique overall solution on the market.

The development of the policy management system msg.Life Factory and its components on the basis of innovative, cloud-native architecture remains a core project in terms of products. In 2022, msg life will earmark approximately 11,400 person-days in development capacity for this and for the further convergence of the components of msg.Life Factory into msg.Insurance Suite.

In connection with msg.Insurance Suite, msg life is still experiencing strong market demand with regard to migration. The company is therefore continuing to hone its own expertise in the migration of entire platforms and is focusing on the further acceleration of migration projects through innovative approaches such as AI, automation and expanded correction processes.

In its consulting business, msg life also relies on its unique selling point of being able to transfer tried-and-tested solutions from the msg life product area even to non-product customers more cost-effectively than any of its competitors.

With regard to the ongoing global Covid-19 pandemic, msg life still sees no significant impacts on the operational or economic development of the company, including in light of the steps taken by msg life and the development of its business with new and existing customers and projects in the 2022 financial year so far.

In the 2022 financial year, msg life expects Group earnings before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets (EBITDA) of between 14.0 and 18.0 million euros and gross Group revenue from its own business of between 165.0 and 180.0 million euros in accordance with German GAAP.

As the holding company, the individual Group company expects a positive result under HGB in the 2022 financial year.

The aforementioned targets are based on circumstances prior to the Russian invasion of Ukraine in February of this year and the resulting economic sanctions against Russia. It is impossible to judge the effects of this crisis on the course of business of the msg life Group in 2022. At the time of preparation of the annual financial statements, however, msg life does not expect any significant changes to its economic or operational development, and is therefore currently not deviating from the above targets for 2022.

Leinfelden-Echterdingen, 14 April 2022
msg life ag

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