Economic output in manufacturing (excluding construction) declined significantly by 2.0 per cent in 2023, primarily due to a much lower output in the energy supply sector. Manufacturing recorded a decline of 0.4 per cent. Production and value creation fell again, particularly in the energy-intensive industries (chemicals and metals), as these industries were already suffering from high energy prices in 2022. Due to high construction costs, a shortage of skilled workers and increasingly poor financing conditions, the construction industry only grew by 0.2 per cent.

Most service sectors were able to expand their economic activities and support the economy in the past year. Nevertheless, the retail, transport and hospitality sector as a whole recorded a decline of 1.0 per cent. The subdued global economic momentum and weak domestic demand also had an impact on foreign trade, emphasises the authority. Imports fell by 3.0 per cent last year, while exports fell by 1.8 per cent.

Prices continued to rise over the past year, although the rate of increase has slowed somewhat. According to the Federal Statistical Office, the average inflation rate in 2023 was 5.9 per cent, compared with 6.9 per cent in 2022. Food prices rose particularly sharply at 12.4 per cent. Food prices have risen by around 26 per cent in the past two years. Energy products grew by 5.3 per cent in 2023, compared with almost 30 per cent in the same period last year.

In light of the generally weak economy, the German government has significantly downgraded its GDP forecast for 2024 from 1.3 per cent to 0.2 per cent according to the federal government's Annual Economic Report in February 2024. The outlook for 2025 is not very encouraging either, with GDP expected to increase by just 0.5 per cent. According to Federal Minister for Economic Affairs Robert Habeck, the reasons for the weak performance are the impact of the war in Ukraine, high energy prices, high inflation and rising interest rates. According to the minister, Germany is also suffering from structural problems and labour shortages.

In this challenging environment, the German insurance industry performed well in the past financial year: according to the German Insurance Association (GDV) at its annual media conference in January 2024, insurers posted a slight increase in premiums across all lines of business of 0.6 per cent to 224.7 billion euros in 2023. In light of falling inflation and rising nominal wages, the association expects premium growth of 3.8 per cent for the current year.

According to the GDV, the life insurance business was negatively impacted in 2023 by the difficult macroeconomic situation, the weak development of real wages and consumer restraint. This mainly affected single-premium business, while regular premiums developed robustly. Overall, premium income for life insurers fell by 5.2 per cent to 92 billion euros. Looking to 2024, the GDV is cautiously optimistic: for example, the association is expecting a very slight drop in premium income of 0.2 per cent to 91.8 billion euros.

The company pension scheme performed less well: according to the GDV, revenue fell by 5.7 per cent to 19.1 billion euros in the past financial year. The number of policies fell by 0.1 per cent to 16.5 million. New business was even worse for the Riester pension scheme: the number of policies plummeted by 68.9 per cent.

In non-life and accident insurance, the association recorded an increase in premiums of 6.7 per cent to 84.5 billion euros. However, at 12.7%, claims expenses rose significantly faster than premiums. This resulted in a loss of around 2.9 billion euros in motor insurance. It goes on to say that every euro received was offset by expenditure of 1.10 euros. As a result of the motor insurance losses, the underwriting profit in non-life and accident insurance fell by more than half to around 1.5 billion euros. For the current year, the GDV is forecasting premium growth of 7.7 per cent for the entire segment.

Rising interest rates and high inflation were once again key issues in the insurance industry last year. In January 2024, the ECB once again left key interest rates unchanged at 4.5 percentage points, following a turnaround in interest rates in summer 2022 due to the rapid rise in inflation. According to the ECB, it is still too early to discuss interest rate cuts. The GDV expects interest rates to be lowered over the course of 2024.

The rise in interest rates has both positive and negative effects for life insurers. It generally improves solvency ratios. This is also emphasised by the rating agency Assekurata in its Life Insurance Market Outlook 2023 in June 2023, according to which the solvency ratios are often very high. Higher interest rates promise higher returns in the investment and reinvestment of fixed-income securities and no additional expenses for the additional interest reserves. On the contrary: Assekurata reports that life insurers are recording the first returns from the additional interest reserves. According to the calculations, the volume of additional interest reserve funds freed up in 2022 amounted to 4 billion euros.

However, higher interest rates lead to hidden charges in the books of life insurers. In times of lower interest rates, the industry invested a large proportion of its investments in fixed-income investments with long maturities. According to estimates by Assekurata, hidden charges totalled some 100 billion euros at industry level (as of June 2023).

Against the backdrop of significantly higher interest rates, the German Association of Actuaries (DAV) recommended increasing the projected interest rate for new life insurance contracts to 1.0% from 2025 onwards. In 2022, the projected interest rate was lowered to 0.25 per cent as a result of the protracted low interest rate environment. The GDV welcomes the DAV initiative and considers the recommended increase in interest rates to be an appropriate response to the general rise in interest rates. The decision is made by the Federal Ministry of Finance. If the ministry were to follow the recommendation, it would be the first increase in the projected interest rate in 30 years.

Increasing regulations also shaped the 2023 financial year, with the comprehensive sustainability regulations being further expanded as part of the EU's Sustainable Finance Action Plan. In June 2023, the European Commission expanded the Taxonomy Regulation that was published in 2020. After the European Commission had initially only formulated the regulatory technical standards (RTS) for the first two environmental objectives (climate mitigation and adaptation to climate change), the technical assessment criteria for the remaining four environmental objectives have now also been published. At the same time, the range of economic activities for the first two environmental objectives has been broadened, particularly in the manufacturing and transport sectors. The new delegated acts for the EU taxonomy will apply from 1 January 2024. This means that all six environmental objectives must be disclosed in full in the 2024 financial year.

The implementation of the regulatory framework requires significant adjustments and presents the financial and insurance industry with major challenges. At an industry conference in Frankfurt in November 2023, the President of the German Federal Financial Supervisory Authority (BaFin), Mark Branson, remarked that although the intentions behind the taxonomy were good, it was not the way to the goal. According to Branson, the complexity of regulation, particularly in Europe, has reached its limits with this very heavy regulatory machinery.

In addition to sustainability regulations, the European Commission is pushing ahead with a law to regulate artificial intelligence (AI). With the planned Artificial Intelligence Act (AI Act), the European Commission wants to create the world's first legal framework for the use of AI. After the presidency of the Council of the European Union and negotiators from the European Parliament reached a provisional agreement on the draft regulation in December 2023, the EU member states approved the draft at the beginning of February 2024. The AI Act is expected to come into force this year. The EU's proposal takes a risk-based approach: for example, regulation is linked to the risks posed by the AI system in question. The insurance industry criticises the fact that certain applications in life and health insurance are part of the particularly highly regulated high-risk sector. According to the GDV, insurers are faced with new obligations even though the existing protection regulations are already extremely strict.

In addition, the EU's Digital Operational Resilience Act (DORA) came into force in January 2023. The regulation must be applied after a further two years. The aim is to strengthen the digital operational resilience of European financial companies. DORA brings together the many different pieces of legislation on the security of information and communication technologies (ICT) into a single piece of legislation. The aim is to consolidate and improve ICT requirements across the financial sector.

There has been little change in company pension schemes in the past financial year. Despite the German Act to Strengthen Occupational Pensions (BRSG), which was passed back in 2018, there has been no major boost in the spread of company pensions. In particular, the expectations of the social partner model (SPM) have not been met. IG Metall had most recently rejected the SPM. The German government now wants to improve the framework conditions, as reported by the GDV in November 2023. As such, the Federal Ministry of Labour is preparing a further package of measures. If the company pension scheme no longer prevails with these measures, an obligation to provide pensions is also under discussion.

In summer 2023, the private pensions focus group set up by the federal government presented its recommendations for reforming private pensions. Among other things, the focus-group experts propose to allow higher-risk products without guarantees, more flexible payout models and the preservation of subsidies of the Riester pension scheme. The group vetoed the idea of a sovereign wealth fund. According to the Federal Ministry of Finance, a concrete reform proposal based on the recommendations of the focus group will now be worked on. The legislative process is expected to take place in the course of 2024.

Digitisation remains high on the agenda of insurers. This is also confirmed by the Lünendonk study 'Digital Outlook: Insurance', which was prepared in collaboration with the msg Group company msg advisors and published in February 2024. According to the survey, 72 per cent of the insurers surveyed in German-speaking countries are investing heavily in the digitisation of their existing core business, while 65 per cent are also investing in new and disruptive business models. This development is also reflected in the GDV's figures: at 5.9 billion euros, insurers' IT investments reached a record high. This is the result of a survey of 2022 carried out by the association in January 2024. Insurers are working hard to modernise their IT infrastructure. These include the automation of business processes, cloud computing, the use of artificial intelligence and cyber resilience.

Cloud computing plays a central role as the driver of the digitisation of companies. According to the study 'Cloud Monitor 2023 Financial Services' by the auditing firm KPMG, cloud computing has evolved from an emerging technology to the standard in the financial sector. The vast majority of companies surveyed in Germany now rely on cloud solutions. More than 60 per cent take a hybrid approach featuring public and private cloud services. In addition to greater agility, scalability and flexibility, cloud computing offers benefits in developing new business models and integrating them into platforms and ecosystems.

The insurance industry also focused on the use of artificial intelligence in the past financial year. Be it in product development, claims processing, migration, document analysis, fraud detection, customer communication or customer service, AI-based systems and solutions offer a wealth of opportunities along the entire value chain. With the help of AI, increasingly complex processes can be automated and decision-making processes can be optimised over the long term. This saves time and money. The main purpose of using AI is to simplify processes, improve customer service and make employees' work easier.

In Europe, the difficult economic environment with rising interest rates and high inflation had a significant impact on the life insurance business in some countries. According to the statistics European Insurance Overview 2023, published by the European supervisory authority EIOPA in October 2023, gross premium receipts in the life segment fell in almost all EU countries in 2022: in Sweden, business plummeted by 25 per cent, while Portugal recorded a decline of 22 per cent. However, revenues also fell by more than 10 per cent in Italy and Finland. Increases were recorded by Cyprus, Bulgaria, Lithuania and Liechtenstein, amongst others. Detailed figures and data on the development of the European life insurance industry as a whole were not provided. The most recent data published by Insurance Europe, the European insurance association, relates to the years 2020 and 2021.

In the US, life insurers recorded a 9.2 per cent increase in gross premiums to 672 billion dollars in 2022, according to the statistics on the German insurance industry published by the GDV in September 2023. The USA is the world's largest life insurance market: its market share was just under 24 per cent in 2022.

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; more than half of all leading life insurers in these countries are its customers. All of 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 and standard software platforms with new operator models, such as software as a service (SaaS).

msg life's products and consulting services are 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 a strategically significant partner for its customers and an attractive employer for the employees.

As part of the TRAIL.X (TRustworthy Artificial Intelligence in Life Insurance) project, msg life has been working with the Ludwig Maximilian University of Munich since 2021 to automatically transfer actuarial functions from a source system to a modern policy administration system with the help of AI. This enables life insurers to replace old system generations in a significantly more affordable and resource-conserving fashion, map their core functions with artificial intelligence and integrate them into a modern system. Explainable AI (XAI) and automated machine learning (AutoML) are two topics that play an important role in this context.

TRAIL.X 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 will be funded by the Bavarian Ministry of Economic Affairs, Regional Development and Energy (StMWi) until the end of 2026. The method is already being used successfully in ongoing migration projects with existing customers.

Under the purchase agreement dated 15 December 2023, the Group company msg life central europe gmbh acquired a 25.1 per cent stake in Cominia Aktuarielle Services GmbH, Hamburg. This company offers actuarial services linked to policy systems in German-speaking countries. With this investment, msg life will have access to additional resources relating to special actuarial expertise, which is currently in high demand on the market.

Business with existing customers in 2023 was characterised by extremely stable, successful projects as well as a continuous flow of new contracts. msg life expects this trend to continue in 2024.

The company also achieved numerous sales successes in 2023. Of particular note in the German-speaking market is the contract from Germany's second-largest life insurer R+V, which has decided to introduce msg. Life Factory as a central and strategic administration platform for the life insurance segment. The Swiss subsidiary of Zurich also approved the future use of msg.Insurance Suite in an SaaS model. Other new orders were placed, for example, by Zurich Group Germany for several components in the area of statutory reporting procedures and by W&W for the introduction of the complete solution msg.Migration Factory. In addition, numerous insurers commissioned msg life with the introduction of the digital pension overview msg.Pension Data.

In the Swiss market, which msg life serves with a dedicated office, long-standing customer AXA used an innovative and unique AI-based migration process developed by msg life in the context of taking over its legacy portfolio in the reporting period. And msg life has received a commitment from two life insurers including, as already mentioned, the Swiss subsidiary of Zurich, to use msg.Insurance Suite in an SaaS model in future.

The performance of the US business of msg life, primarily for health and group insurers, was satisfactory in 2023. The msg life Group company based there, FJA-US, Inc., reports continuous development and generally strong customer demand for services.

The range of services offered by msg life there encompasses not only software products and technical consulting services on all aspects of product and tariff structuring, but also operator models that are generating growing interest in the market. In this context, several customers now maintain such an operator model, 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. msg life recorded positive business performance with existing customers there in 2023 and expects further sales successes in the current financial year as well.

In the reporting period, msg life's Slovenian unit was taken over by the msg Group company msg Plaut with effect from 1 January 2023. As the unit has enjoyed generally positive development over the past few years, its integration into msg Plaut is expected to generate considerable synergies in the dynamic Central and Eastern European markets, where msg Plaut has been active with extensive sales resources for many years. At the same time, the Unified Administration Platform (UAP) complements msg Plaut's range of products and services, which focus on product-based consulting.

Both units – msg Plaut and OdaTeam – expect their new status to greatly strengthen their sales, create advantages in terms of future market cultivation and expand their capacity to deliver significantly. For msg life, the sale also represents a strategic intensification of its product strategy for the cross-segment software msg.Insurance Suite.

As previously reported, there were numerous new orders for msg life in 2023 and the company expects relevant new business in the 2024 financial year. Business with existing customers in connection with the software components was also strong. Additionally, most of the major projects set out in the corporate plan were executed in the reporting period. Like in previous years, msg life focused on sales projects in well-established markets in particular in the 2023 financial year.

As an IT company and service provider in a highly regulated market, information security and data protection play a key role for msg life. Accordingly, the information security management system (ISMS) was upgraded further during the reporting period. The ISMS is a systematic approach to implementing information security in order to meet internal and external requirements and identify and deal with risks in order to achieve business objectives. The scope of the certification in accordance with ISO/IEC 27001 was extended to include additional organisational units in msg life in 2023.

Summarised evaluation of the company's business situation

2023 was another good financial year for the msg life Group with numerous sales successes (with the corresponding licensing income) and stable business with existing customers. As a result, the targets set at the start of the financial year relating to the financial performance indicators of Group revenue from its own business under the HGB and Group earnings before interest, taxes, depreciation and amortisation (EBITDA) under the HGB have been achieved.

In the reporting period, the msg life Group recorded gross Group revenue from its own business under German GAAP of 186.4 million euros (previous year: 173.2 million euros) and Group earnings before interest, taxes, depreciation and amortisation (EBITDA) under German GAAP of 15.3 million euros (previous year: 14.1 million euros).

The business situation of the company in the 2023 reporting year can therefore be described as positive overall. The foundations exist for positive development in 2024 and beyond. Last year's prognosis in the separate financial statements forecast positive net results on the same level as in the previous year; as the holding company, the individual Group company finished the 2023 financial year with net profit of 9.0 million euros (previous year: 7.4 million euros). This development was due to an increase in income from profit-pooling contracts (+3.5 million euros higher than in 2022).

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 2023 are based on the German Commercial Code (HGB).

The Group's earnings position

DEVELOPMENT OF TURNOVER

As at the balance sheet date, the following changes to the consolidation group described in the consolidated financial statements for the 2022 financial year as at 31 December 2022 took place:

The former subsidiary msg life odateam d.o.o. was sold to msg Plaut AG, Vienna (Austria), and subsequently renamed msg Plaut UAP d.o.o. The commercial transition took place with effect from 1 January 2023.

The msg life Group's turnover in the 2023 financial year amounted to 179.2 million euros, which is 3.7 million euros lower than the figure for the 2022 financial year, corresponding to a decline of 2.0 per cent. This slight decline was due to projects that, contrary to plans, were no longer executed in the reporting period.

Service turnover decreased slightly by 0.4 million euros from 128.8 million euros to 128.4 million euros. As at 31 December 2023, service turnover makes up 71.7 per cent (previous year: 70.4 per cent) of total turnover. Product-based turnover overall was down by 3.7 million euros to 50.4 million euros (previous year: 54.1 million euros). In terms of product-based turnover, licensing income came to 14.7 million euros in the reporting period (previous year: 19.4 million euros), which represents 8.2 per cent of total turnover (previous year: 10.6 per cent). Maintenance turnover came to 27.5 million euros in 2023 (previous year: 26.8 million euros) and therefore makes up 15.3 per cent of the total turnover (previous year: 14.7 per cent).

As part of the product-based turnover, the other turnover largely consisted of computing centre services in 2023. It amounted to 8.2 million euros in the financial year ended and was higher than in the previous year (previous year: 7.9 million euros).

As for the regional breakdown of turnover, the aggregate figure for Germany in the 2023 financial year remained at 156.1 million euros and 23.1 million euros in other countries (previous year: 26.8 million euros).

The turnover of the msg life Group's American business increased by 0.4 million euros to 20.5 million euros in 2023. Switzerland is the second-strongest market in terms of turnover, with turnover in the 2023 financial year amounting to 1.4 million euros (previous year: 1.3 million euros). In Portugal and Spain, the company and Spain experienced a slight decrease in sales of 0.1 million euros to 1.1 million euros. At 0.1 million euros, turnover remained stable in the Benelux region. Following the sale of the former subsidiary msg life odateam d.o.o., the Slovenian market is no longer served by msg life.

The national affiliates in Austria and Slovakia generate turnover primarily for other Group companies, so that the external turnover they generate is correspondingly low.

The change in inventories increased by 17.0 million euros from -9.7 million euros to 7.3 million euros in the financial year, causing the gross revenue of the company to increase by 13.2 million euros to 186.4 million euros, representing a 7.6 per cent increase. Among other factors, this effect is due to a customer project being carried out in cooperation with msg systems ag in which the resulting gross revenue was 5.8 million euros higher 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 capitalised. The item other operating income came to 3.0 million euros (previous year: 2.0 million euros).

Total costs in the 2023 financial year amounted to 174.1 million euros (previous year: 161.2 million euros); they therefore rose by 12.9 million euros, which corresponds to an increase of 8.0 per cent. The largest proportion of total costs comprised personnel costs at 113.5 million euros (previous year: 107.2 million euros), which represents a share of 65.2 per cent (previous year: 66.5 per cent) relative to the average number of 1,225 employees (previous year: 1,225 employees).

At 37.1 million euros (previous year: 31.1 million euros), procured services represented a large proportion of total costs. This increase of 6.0 million euros is due to other services, the majority of which – 7.9 million euros – resulted from a project in cooperation with msg systems ag in the reporting year.

Procured services include external freelance staff whose costs amounted to 13.6 million euros in the 2023 financial year (previous year: 13.4 million euros). They cover special requirements such as capacity utilisation peaks due to new projects and, as such, they are a variable element in the total costs.

As already reported, personnel costs rose to 113.5 million euros (previous year: 107.2 million euros). At the same time, material expenses rose from 31.1 million euros to 37.1 million euros due to an increase in procured services. Other operating expenses accounted for 13.5 per cent of total costs in the 2023 financial year, an increase compared with the previous year (increase in the previous year: 14.2 per cent), and came to 23.4 million euros (previous year: 22.9 million euros). As in the previous year, the main component of other operating expenses was expenses for office space (primarily rent), which remained at 7.3 million euros.

Travel expenses associated with products increased slightly year over year, and were 1.6 million euros in the 2023 financial year (previous year: 1.2 million euros). On the other hand, communication costs decreased slightly, falling by 0.2 million euros from 0.9 million euros to 0.7 million euros. Likewise, consulting, financial statement and Supervisory Board expenses decreased somewhat by 0.3 million euros to 2.3 million euros in the 2023 financial year (previous year: 2.6 million euros).

As a result, in the 2023 financial year, the Group generated earnings before interest, taxes, depreciation and amortisation (EBITDA) of 15.3 million euros (previous year: 14.1 million euros).

The sum of all depreciation and amortisation decreased by 0.4 million euros to 2.1 million euros (previous year: 2.5 million euros). Depreciation of property, plant and equipment amounted to 1.8 million euros (previous year: 2.1 million euros). Scheduled amortisation of intangible assets remained stable at 0.4 million euros.

Altogether, the positive operating result (EBIT) in the 2023 financial year was 13.2 million euros (previous year: 11.5 million euros).

The financial result amounted to 1.6 million euros (previous year: –0.1 million euros). The msg life Group is completely equity-financed and is not dependent on borrowing.

The Group's income from ordinary activities improved in 2023 by 3.3 million euros, bringing it to 14.8 million euros (previous year: 11.5 million euros). This resulted in income tax expenses of 2.9 million euros for the 2023 financial year (previous year: 2.3 million euros).

After taking into account other taxes, net income for the 2023 financial year was 11.8 million euros (previous year: 9.1 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.

Due to the invoicing of customers at the end of the year, the liquid funds in bank accounts increased significantly by 8.7 million euros, reaching 15.6 million euros as at 31 December 2023 (31 December 2022: 6.9 million euros). Cash pooling exists for the German companies within the msg life Group. Additionally, the Group invested 25.3 million euros in cash in US treasury bonds (previous year: 26.7 million euros), in order to generate interest income on a part of its existing cash holdings. Overall, cash and cash equivalents increased by 7.3 million euros to 40.9 million euros (previous year: 33.6 million euros).

In the reporting period, msg life generated an operative cash flow of 12.0 million euros (previous year: -2.2 million euros). The msg life Group closed the 2023 financial year with earnings before taxes on income (EBT) of 14.8 million euros in total (previous year: 11.5 million euros).

Cash flow from investing activities amounted to -1.6 million euros (previous year: -9.0 million euros), whereby investments in property, plant and equipment, in the form of technical equipment, accounted for 2.1 million euros and the purchase of US treasury bonds for 0.5 million euros.

The cash flow from financing activities amounted to -1.7 million euros in the 2023 financial year (previous year: 0.0 million euros). This was due entirely to the payment of a dividend for the 2022 financial year.

The Group's assets position

ASSET STRUCTURE ANALYSIS

At 64.4 per cent, the equity ratio of the Group as at 31 December 2023 has undergone further positive development compared to the previous year (previous year: 61.4 per cent) and equity amounted to 77.6 million euros (previous year: 68.3 million euros). As at 31 December 2023, the Group's total assets are 120.5 million euros (previous year: 111.3 million euros), which represents an increase of 9.2 million euros.

In the reporting period, current assets increased from 97.3 million euros to 106.6 million euros. Essentially, this development was due to the fact that liquid funds were 8.7 million euros higher and trade receivables were 9.4 million euros higher as at the reporting date. On the other hand, inventories decreased by 7.5 million euros from 8.4 million euros to 0.9 million euros, which had the opposite effect.

The net total of the line item 'Inventories' has decreased 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 0.9 million euros has been recognised under inventories.

Fixed assets increased by 0.3 million euros, from 9.7 million euros in the previous year to 10.0 million euros. In the 2023 financial year, property, plant and equipment barely changed in value. Overall, intangible assets decreased by 0.4 million euros to 0.3 million euros as a result of amortisation. Prepaid expenses decreased by 0.3 million euros year over year. Before they were netted against deferred tax liabilities, the deferred tax assets totalled 0.1 million euros (previous year: 0.2 million euros).

Provisions increased by 0.8 million euros to 27.0 million euros. Essentially, this change was due to the increase in other provisions by 1.2 million euros to 17.9 million euros.

All in all, provisions account for 22.4 per cent of the balance sheet total, compared with 23.6 per cent in the previous year.

Liabilities increased by 1.9 million euros and totalled 13.5 million euros. The decrease compared to the previous year is due to the decrease in trade payables of 2.2 million euros to 3.2 million euros because of the reporting date, a decrease in other liabilities (essentially VAT liabilities) of 0.7 million euros and the increase in liabilities to affiliated companies by 1.0 million euros to 6.1 million euros. Deferred income increased to 2.4 million euros (previous year: 1.3 million euros) due to the reporting date, and was essentially attributable to received maintenance fees.

The Group still has no financial liabilities due to banks (neither current nor non-current). All in all, the ratio of liabilities to total assets decreased from 13.8 per cent in the previous year to 11.2 per cent now.

The 2023 financial year was in line with expectations. This was caused by numerous sales successes with the corresponding licensing income and stable business with existing customers. 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, sales increased by 2.0 million euros from 35.9 million euros to 37.9 million euros. This development was driven by internal sales (i.e. sales revenue from companies within the msg life Group) which increased by 2.7 million euros. In contrast, external sales decreased by 0.7 million euros. Other operating income came to 0.4 million euros (previous year: 0.3 million euros).

Expenses for the procurement of services were 5.0 million euros higher than in the previous year and amounted to 18.0 million euros in the financial year ended (previous year: 13.0 million euros).

At 8.7 million euros (previous year: 7.7 million euros), personnel expenses were 1.0 million euros higher 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) increased slightly to 0.9 million euros in 2023 (previous year: 0.6 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 3.0 million euros to 24.8 million euros in the financial year ended (previous year: 21.8 million euros). As in the previous year, this was essentially due to IT expenses as a result of the increase in SaaS contracts.

Under both of its profit transfer agreements, the company received 18.6 million euros from msg life central europe gmbh (previous year: 14.9 million euros) and 0.4 million euros in income from msg life global gmbh (previous year: 0.6 million euros).

At -0.3 million euros in the 2023 financial year, the net interest result of msg life ag deteriorated slightly (previous year: -0.1 million euros), and is primarily comprised of interest expenses for pension and anniversary provisions or accrued interest on IC liabilities to affiliated companies.

Income tax expenses amounted to 0.7 million euros in the 2023 financial year (previous year: 0.6 million euros).

Overall, for the 2023 financial year, msg life ag generated a net profit under the German Commercial Code (HGB) in the amount of 9.0 million euros (previous year: 7.4 million euros).

FINANCIAL POSITION AND ASSETS

Non-current assets increased by 0.3 million euros to 64.6 million euros (previous year: 64.3 million euros), essentially 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 2.3 million euros (previous year: 2.0 million euros).

In the financial year ended, the current assets of msg life ag increased by 13.8 million euros, from 42.2 million euros in the previous year to 56.0 million euros. Essentially, this development was due to the increase in work in progress, liquid funds as well as trade receivables.

Trade receivables increased by 3.1 million euros to 5.1 million euros due to the reporting date (previous year: 2.0 million euros).

Receivables from affiliated companies increased by 0.4 million euros to 6.0 million euros due to the reporting date (previous year: 5.6 million euros). Due to the reporting date, liabilities to affiliated companies increased by 2.7 million euros to 11.9 million euros (previous year: 9.2 million euros).

As at the reporting date, cash and cash equivalents were 5.1 million euros higher than in the previous year, reaching a balance of 8.2 million euros at the end of the year (previous year: 3.1 million euros). Based on the reporting date, the increase is due to less working capital being tied up. The company was completely equity-financed in the 2023 financial year (as was the case in the previous year) and, as such, there were no deferred liabilities to banks.

Prepaid expenses increased slightly by 0.3 million euros year over year.

Equity amounts to 67.9 million euros (previous year: 60.7 million euros), which represents an increase of 7.2 million euros. The net retained profits amounted to 13.3 million euros (previous year: 6.1 million euros).

Liabilities amounted to 51.2 million euros. The increase of 6.1 million euros compared to the previous year is due to the increase in payments received on account of 5.2 million euros to 36.6 million euros and the increase in liabilities to affiliated companies of 2.7 million euros to 11.9 million euros. In contrast, trade payables decreased by 1.2 million euros to 1.3 million euros and other liabilities (essentially VAT liabilities) decreased by 0.7 million euros because of the reporting date.

Total assets as at 31 December 2023 amounted to 124.1 million euros (previous year: 109.7 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 (on the advisory council and in the user and operator groups) and partners (AWS, Azure, Google, 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, with the exception of collaborations such as the TRAIL.X project. 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. 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. Naturally, 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 partnerships with AWS, Azure, Google, IBM and selected colleges and universities.

R&D expenditure

The msg life Group's R&D expenditure totalled 13.821 million euros in the 2023 financial year (previous year: 11.078 million euros). Once again, no development expenses were capitalised.

Employees

On 31 December 2023, the msg life Group had 1,248 permanent employees including managing directors, excluding the employees of the divested subsidiary msg life odateam d.o.o. – (31 December 2022: 1,269 permanent employees).

After the Covid-19 situation gradually returned to normal over the course of 2022, the 2023 financial year marked the company's final transition into a post-pandemic 'new normal'. Working on site in the branches and at customers' premises is now permanently supplemented by an increased proportion of time during which employees work remotely from home. In the meantime, the employees have further professionalised distributed work and thus also intensive teamwork – without being in the same place together. Such a hybrid working model therefore remains an integral part of the innovative and future-proof work organisation at msg life.

The company took the various services it offers to support employees and their families further in 2023, and worked systematically on further improvements to the field of integrated support for employees' professional and private lives. The priority is to improve employees' family and social lives, promote their health and support them through personal crises. For msg life, this offer is therefore also evidence of a corporate culture in which tolerance, respect and diversity, appreciative cooperation, collegiality, commitment, sustainability, creative freedom and reliability all have their place. In this context, the benefits of the employer include, in particular, a structured onboarding programme, a flexible working time model, individual development opportunities, good transport connections, modern working environments, hybrid working opportunities, a healthy work-life balance and an attractive and transparent remuneration model.

In order to find new employees, the company continues to offer 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 is adapted continuously to changing general conditions. In addition to its own networks, the Internet remains by far the most important medium for achieving the company's recruitment success.

msg life 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 and tailored social media content. This is in addition to the ongoing optimisation of job titles, advertisement text and advertisement formats, which were further developed in 2023 in connection with the joint msg insur:it branding.

In the context of its long-term growth long strategy and the related strategic increase in personnel, msg life was able to increase the number of applications dramatically in the reporting period. The company received more than 5,700 applications in the reporting period. The option to carry out all application and onboarding processes in digital formats has been made even more professional. Last year's new features include the option of applying via WhatsApp, for example. The maturity of the digital application processes received and continues to receive excellent ratings from applicants on the relevant platforms and as direct feedback to the company, which shows that msg life is positioning itself as an innovative company amongst its competitors on the labour market.

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, was expanded and extended further in 2023. Over the past year, this innovative format has already enabled well over 100 virtual interviews to be conducted.

The company shortens the time it takes for its future employees to join the company by means of an informative onboarding portal, which also ensures that documents are provided securely during the recruitment process. The aim is to tie new employees to the company even before their first day at work, offer them opportunities to identify with the company and dispel any concerns they may have about it. In the 2023 financial year, the onboarding of new employees took place partly remotely and digitally and partly on site at the offices. For years, msg life has been offering welcome and induction events for all new employees during the first six months of their employment with the company. 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. In particular, the aim is also to give the new colleagues a broad network within the entire company as quickly as possible. In 2023, msg life once again offered new employees a structured onboarding programme to help them get started with the company. Innovative online collaboration formats, which are now well established, advanced and more professional, were used for these purposes, as were in-person events at various offices.

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 talent and potential programmes. Using a structured selection process, employees are identified as having talent or potential if they are developing very quickly and positively and can be expected to undergo accelerated development and be capable of taking on an important role in the company in the future. Within the programmes, the participants identify their own operational or strategic topics, work independently on questions and projects and take their results back to the company.

In addition to individual support and professional development of the employees, the central goals of the programmes, which start on an annual basis, are good networking and long-term retention of the talents and potential in the company, as well as allowing knowledge to be transferred as broadly, quickly and pragmatically as possible, in particular with regard to innovative topics and new questions.

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

In 2023, msg life continued to digitise and modularise 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. The ability of the system to support multiple clients and languages also enables the flexible integration of additional user groups, such as employees of customers and the foreign subsidiaries of the company (including their customers).

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 2023.

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 Controlling & Risk Management 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 legal units, divisions and programmes to continuously monitor and deal with the risks that fall within their own remits.

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 2023 as well and it was not necessary to revisit it. The entire procedure was approved by the Risk Board (risk manager and Management Board). The employees responsible for this field were trained accordingly. As part of the ISO/IEC 27001 certification, the management of information security risks was expanded further within the overriding central risk management system. An external audit performed confirmed the adequacy and correctness of msg life's 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 2023. At the same time, data protection, the company's internal auditing, IT security, information security management and compliance management were incorporated into the early risk detection system. The corresponding risk report for 2023 was presented to the Supervisory Board in February 2024.

In 2023, 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 expects the regulation throughout the insurance sector to continue. This regulation, the persistent cost pressure and demographic changes in the insurance sector are necessitating a great deal of adaptation with regard to the solutions currently being used in the insurance sector, and are 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. Above all, the demand for standard software in conjunction with SaaS offerings in the cloud is increasing.

In addition, the use of AI and AI-based services is becoming increasingly important in all areas. This presents both opportunities and risks. The application and use of these innovative technologies takes into account current and future legal regulations. National and international developments alike must be observed here.

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 and legal units.

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 Group-wide project and project risk management standards; a standardised process model minimises risks even further. 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 did not increase in 2023. The existing risks of individual projects have been appropriately taken into account for 2024. The cumulative occurrence in multiple projects could, however, lead to negative effects.

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 engagement 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 deadline commitments 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 could be affected particularly by the 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 aforementioned economic risks also apply to the Russian invasion of Ukraine in February 2022 and the resulting economic sanctions against Russia. As in the 2023 financial year, no effects on the course of business of the msg life Group are currently being observed in this context in 2024.

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 strengthens the company's market position. 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.

IT 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.

The risks associated with the use of cloud technologies to outsource services are counteracted with the information security management system (ISMS) and certification in accordance with ISO/IEC 27001. Numerous guidelines have been drawn up to ensure compliance with security standards. Moreover, additional capacities have been built up in the field of security management. This also addresses the stricter compliance and security requirements of legislators and customers.

When developing and deploying SaaS solutions, a great deal of attention is paid to information security and data protection. To this end, a DOR working group was set up in autumn 2023, in which the relevant issues specified by legislators will be discussed together with clients and risks addressed in the future.

Appropriate contracts have been drawn up to exclude liability risks that could arise from SaaS solutions offered by msg life.

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 of 1.863 million euros had been used exclusively to serve as collateral 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 75,000 euros (previous year: 20,000 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 1.863 million euros had been used exclusively to serve as collateral for security deposits by the reporting date.

In the 2023 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:

Due to the current rates of inflation, the prices of subcontractors and freelancers are expected to rise along with the costs of hardware, software and licences. Where these increases were known or foreseeable, they have been factored into the budget for 2024. Risk mitigation measures have also been implemented in the form of price increases and indexation.

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 2023 would have been 9,000 euros lower (higher) (previous year: 8,000 euros lower (higher)) and the equity components would have been 9,000 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 88 per cent of its revenues are generated in eurozone countries (previous year: 88 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 14 per cent (previous year: 14 per cent). In the case of trade payables, currency risks occur in relation to the 5 per cent of liabilities not denominated in euros (previous year: 4 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 sales. For example, Germany accounts for an 87.1 per cent share of sales (previous year: 85.4 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 59.0 per cent share of sales (previous year: 51.2 per cent) and a 50.6 per cent share of trade receivables (previous year: 21.9 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 2024, it will again be able to deal successfully with the challenges that arise from the aforementioned risks.

Forecast

Market and competition

With around 1,250 employees at sites in Germany, the Netherlands, Austria, Switzerland, Slovakia, 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. The company has good market opportunities and a promising competitive position given its extensive digitised offering for life insurance in Europe and, in particular, for health and group insurance companies in the USA.

With regard to its strategy of continued internationalisation designed to open up new insurance markets, the company has entered into partnerships with msg global solutions ag, AWS, Azure, Google, IBM and others. 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 a key success factor when it came to attracting new customers. Additionally, Group companies consistently put the solutions implemented for one region at the disposal of other Group companies in other countries – which can advance the international development of msg life as a service provider for its customers. Besides the aforementioned partnerships, the objective in 2024 is to press ahead with major sales projects, especially in the established foreign markets, as in the 2023 financial year.

The Austrian market, where msg life has enjoyed numerous sales successes in recent years, is a cornerstone of its international activities. The placement and further development of the consulting policy 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. msg life is also present in these markets with its subsidiary in Slovakia.

In 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. An innovative, AI-based and previously unique migration solution developed by msg life was used by its long-standing customer AXA in the reporting period in the context of the acquisition of the legacy policy. Two life insurers have also made commitments regarding the future use of msg.Insurance Suite in an SaaS model.

The Iberian Peninsula, where msg life has offices in Portugal and Spain, is another highly interesting market in terms of sales. msg also uses the office in Portugal as a successful product development unit.

In the US market, a localised version of msg life's portfolio of European life insurance products is to be deployed as an integrated solution in connection with its specific US products. 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 – which are generating growing interest in the market.

The target group of the msg life Group company there is health and group insurers and, in future, will also include life insurers on the basis of the US product policy. 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 to grow further along with the sales opportunities this provides.

Following a strong 2023 financial year, msg life is registering a high level of demand for solutions in the first quarter of the ongoing 2024 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 implementation of the EU Sustainable Finance Action Plan, the accounting rules of IFRS 17, the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation, the new VAIT or the planned regulatory projects in connection with the AI Act or DORA, the ongoing and still-looming 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 attractive throughout the insurance industry.

Consequently, the German-speaking market will remain very challenging for insurance companies this year and probably in the years to come. Other challenges include the current changes in interest rates, the ongoing trend towards internationalisation and consolidation and the efforts to reduce costs and increase efficiency. This means that insurance companies see a clear correlation between modern and flexible IT and success in business.

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 this context, 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 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 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. There is still a great deal of action on the market with biometric products and capital-forming products that use financial instruments: 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 or the purchasing of options on the basis of traditional basic cover.

Given the current challenges, micro-service-oriented architectures designed to quickly support modified and digital business models and high system versatility for the rapid introduction of innovative products are factors crucial to the success of insurance companies. The platform economy continues to play a key role in the insurance industry: numerous insurers are now using platforms and ecosystems to provide digital products and services beyond what had previously been their core business. These, in turn, will create new opportunities to create value.

Likewise, the subject of AI is becoming increasingly important. The use of AI (and automated machine learning – AutoML) not only generates efficiency gains through automation, but also professionally motivated, new opportunities.

msg life is addressing this issue with its TRAIL.X project, in which it is developing a process together with the Ludwig Maximilian University of Munich that automatically transfers actuarial functions from a source system to a modern policy administration system with the help of AI. This enables life insurers to replace old system generations in a significantly more affordable and resource-conserving fashion, map their core functions with AI 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 achieve positive effects for their books, and buyers can generate significant economies of scale and cost synergies. Here, too, modern asset management with modern and powerful IT systems plays a decisive role in the more efficient management of contracts.

The Covid-19 pandemic has once again greatly accelerated the digital transformation of the economy and society. Today, digitisation is one of the most significant challenges facing the German insurance industry, and the business processes it affects will allow for the ever-greater integration of systems across divisions, segments and corporate boundaries. The digital transformation makes it increasingly possible to tap the potential of standardised and automated processes. 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.

Digitisation makes it possible to position modern insurance products and services via new channels or integrate them into new sales and partnership platforms, and even to realise new methods of collaborating with a variety of partners. This all requires insurers to make comprehensive modifications to their IT landscapes in order to incorporate such technology and platforms – and msg life is taking it into account as it develops its own range of products and services. The company already has SaaS and cloud-based solutions to support insurers with the digitisation process, thanks in no small part to its strategic collaboration with major cloud providers such as Amazon (AWS), Microsoft (Azure), Google and IBM.

Due to these developments, msg life anticipates that insurance companies will show a general interest in the software and consulting solutions it will be offering in 2024.

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 normal level for a software company in 2024.

Continuous delivery, an important strategic element, will continue to be developed in the current year in order to further accelerate and economically 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 2024, msg life will earmark approximately 11,250 person-days in development capacity for this and to further support the 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 continuously honing its own expertise in the migration of entire platforms and is successfully focusing on the further acceleration of migration projects through AI-based innovative approaches.

In its consulting business, msg life 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.

Performance-related forecast

With regard to the economic sanctions in connection with the Russian invasion of Ukraine in February 2022, msg life still does not expect any material impact on the operating or economic development of the company – including with regard to the development of its business with new and existing customers and its project business in the 2024 financial year so far. The same applies to the Covid-19 pandemic, which has now come to an end.

In the current 2024 financial year, msg life expects Group earnings before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets (EBITDA) of between 15.0 and 20.0 million euros (previous year: 15.3 million euros) and gross Group revenue from its own business of between 195.0 and 211.0 million euros (previous year: 186.4 million euros) in accordance with German GAAP.

As the holding company, the individual Group company expects a positive result under HGB to match the previous year in the 2024 financial year (previous year: 9.0 million euros).

Leinfelden-Echterdingen, 18 April 2024
msg life ag

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