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## Foreword

**Dear Ladies and Gentlemen,**

This second Company Report published by the Heidelberger Leben Group looks back on a year full of major operational activities. Despite the volatile market environment, the Group has a good, robust balance sheet. Performance has remained strong across key metrics. Our business model is already demonstrating its potential.

After the publication of the first report was defined by an in-depth analysis and initial reorganisation measures at life insurer Heidelberger Lebensversicherung, 2015 was dominated by fundamental reorganisation measures in all areas of our Group. This phase of restructuring is intended to create a scalable structure for our Group and this process is likely to last a total of two years. 2015 was therefore the first of two years of restructuring.

Our primary focus during 2015 was on the functions which constitute the operational platform for our business model and its appeal for a life insurance market that is in need of consolidation. This relates to the expansion of the new group-wide IT infrastructure across businesses, and the installation of a universal portfolio management system based on market standards.

Accordingly, following the integration of Heidelberger Lebensversicherung into the group-wide uniform IT infrastructure, Skandia Lebensversicherung in Germany and the portfolio of Clerical Medical were also integrated successfully. Since then, all the companies within our Group – life insurers and service companies – have been operating on one single technology platform. Furthermore, the entirely reconfigured portfolio management system, based solely on market standards, was rolled out end-to-end for migrations at the end of the year. In future, all current and potential insurance contracts of portfolio companies of the Heidelberger Leben Group will be managed using this system. In parallel, all the departments of the Finance and Controlling Division were converted to SAP software systems during 2015.

With these process improvements we have provided clear evidence: our business model is not simply a vision on paper, it is now a reality and is capable of being an integral part of insurance industry consolidation.

Of course, a renewal process of this nature also requires far-reaching changes to the organisational structure. The key decision was taken in spring to establish the Staff and Controlling Sections at the Neu-Isenburg site to the south of Frankfurt am Main. The new Corporate Centre was already able to accommodate a workforce of around 50 colleagues by the end of the year. The Heidelberg and Berlin locations will take the role of service centres and the employees there will now concentrate exclusively on customer-centric and service-related activities. As a result, a start was made on a compensation plan for a reduction in jobs that are no longer required as a consequence of combining the central functions. This process continues and should be completed during the course of 2016. Significant work has also been put into our risk management. During the year we created the necessary structures and installed the appropriate tools. Finally, a decision was taken to accept the offer submitted by the FWU Group to purchase the Austrian Skandia operations. The rationale behind this decision is that it allows us to focus our attention entirely on the core market in Germany – in light of limited synergies in the Austrian organisation. The transaction was completed at the end of January 2016.

In spite of all these work-intensive initiatives and projects, we remain completely focused on our customers. The clearest indication of this is the further reduction in lapse rates that has been achieved during the year. As at year-end, all the Group companies had solvency ratios of more than 170 per cent. For the same period, the total amount for assets under management amounted to 12.3 billion euros. These results mean that all employees in the Heidelberger Leben Group deserve particular praise and recognition for their huge personal commitment in these times of fundamental change.

Anybody familiar with the life insurance sector will know that the reinvention of our business model is a Herculean task. We are all the more convinced that only our radical approach is able to offer sustainably robust solutions to providers and, in particular, policy holders. Our single-minded and successful pursuit of this approach enables us to say with confidence that the Heidelberger Leben Group is ensuring that performance promises can be delivered reliably over the long term.

2015 has also demonstrated that caution with respect to the so called 'run-off market' has increasingly given way to significant interest. We have conducted many discussions. And we continue to engage in these talks, analysing potential target portfolios. We remain confident that we will be able to extend our track record of successful portfolio acquisitions. Our approach will not be characterised by undue haste, as many factors need to be considered to ensure they are fully in line with our investment and risk philosophy.

Yours,

Dr Heinz-Peter Roß  
Chief Executive Officer, CEO  
Heidelberger Leben Group

## Business performance

Since the completion of the acquisition of the Skandia companies in Germany and Austria, the Heidelberger Leben Group was comprised of Heidelberger Leben, Skandia Leben Deutschland, Skandia Leben Austria and the associated service companies. In August 2015, the sale of the Skandia companies was announced in Austria and this process was concluded in January 2016.

Following the analysis of our portfolios in 2014, the 2015 fiscal year marked the first of two development years for the Heidelberger Leben Group. By the end of 2016, all the key dimensions of the Target Operating Model (TOM) will have been implemented.

Synchronisation of the processes of Heidelberger Leben and the Skandia companies was rapidly rolled out in 2014 and was driven forward intensively during the period under review. The main focus was on the establishment of a group-wide, uniform IT infrastructure and a portfolio management platform based on market standards. Reorganisation measures at and above divisional levels contributed to providing qualitative protection for these sophisticated processes. The 'Strategic Platform and Migration Programme' provided the planning backbone for all IT and platform issues. This programme was divided into individual projects. All modules developed in accordance with milestone planning.

The transformation of information technology at Skandia Leben Germany into the established systems at the Heidelberger Leben Group was carried out in the final quarter of 2015 and was in line with expectations. Since then, all companies have been operating on the basis of one technology platform. Furthermore, the entirely reconfigured portfolio management system, based solely on market standards, was rolled out end-to-end for migration at the end of the year.

By the end of 2014, the Heidelberger Leben Group had already successfully launched a new SAP-based bookkeeping system for all locations. Corporate software provider SAP conferred an official award on Heidelberger Leben Group for the quality of its exemplary processes during 2015 following implementation.

In 2015, Skandia Leben Germany was converted to a cost model alongside Heidelberger Leben to the benefit of policy holders. The service companies within the Group use this model as a platform for charging a fixed service fee to the life insurance companies as a proportion of the number of contracts included in the portfolio. This guarantees that costs for the administration of contracts can remain stable for many years. This service fee model therefore yields a clear, tangible benefit for the policy holders, particularly over the medium to long term.

After 2014, the lapse rates of all the portfolio companies continued to fall during the 2015 fiscal year, and therefore confirmed the confidence of the policy holders in their products and their satisfaction with the customer services provided. During 2015, the service level was improved to more than 90% and hence to a good level following a temporary backlog situation at Heidelberger Leben, which was successfully remedied in the course of the year as a result of process-related measures.

The key functions for reliable and sustainable risk management and governance functions were strengthened throughout the organisation. The Solvency II project developed according to plan and was completed at the end of the year in accordance with our objectives. All companies were strongly capitalised. The QRT (Qualitative Reporting Templates) reports and narrative reporting were delivered on schedule to the responsible supervisory offices. The key guidelines were also implemented.

The Heidelberger Leben Group is therefore privileged to look back on an eventful year, which was economically sound and successful. Contributions to this success included the ongoing positive development of equity markets and the associated increase in refunds from investment funds, the introduction of an expanded investment strategy in the conventional area, progress on increasing efficiency within the Heidelberger Leben Group and an ongoing low lapse rates in the three life insurance companies.

## Key indicators

	2015			
	HLE	SKD	SKA*	HL-Group**
FTE				approx. 460
Premium volume in millions of €	659.6	351.6	136.1	1,147
Managed contracts	655,834	285,337	74,788	915,959
Unit-linked	386,459	276,283	74,788	737,530
Conventional	169,375	9,054	0	178,429
Lapse rates in %	3.6	6.6	8.4	5.1
Assets under management millions of €	7,084	3,860	1,380	12,324
Solvency ratio in accordance with SI	172.0%	173.6%	175.8%	134%
Solvency ratio in accordance with SII	128.4%	125.7%	n/a	149%***

\* Skandia Austria sold at the end of 2015

\*\* Including Skandia Austria

\*\*\* Before profit transfer

# Employees

After the comprehensive restructuring of human resources was launched at the Heidelberg site in the first half of 2014, this had been largely completed by the end of the year. The primary focus in 2015 was then on stabilising the Heidelberger Leben organisation, which had been reduced in size and been partly restructured, thus ensuring the Group is well positioned for the future. Additionally, more low-key restructuring measures in other parts of the Heidelberger Leben Group mainly impacted the Berlin location. All personnel changes were directed towards aligning the entire organisation in accordance with the requirements of the business model and the expectations of the policy holders.

In order to ensure the optimum conditions for the desired growth of Heidelberger Leben Group, a decision was taken in the first half of the year to expand the existing location concept. This expansion had already been largely implemented by the end of the year. The Board of Management, the units responsible for the acquisition and integration process, and the central staff and management functions of the Group were based in a Corporate Centre, which had been newly established in Neu-Isenburg near Frankfurt am Main. From July 2015, all the Group functions of Finance, Actuarial Department, Investment, Liquidity Management, Taxes, Legal Affairs, Auditing, Human Resources, Communications, Business Organisation and Business Development were gradually centralised in the Corporate Centre. Employees from Heidelberg and some staff from Skandia Leben Germany from Berlin changed their workplace accordingly. Around 25 employees were also recruited externally in order to selectively strengthen some of the the core functions.

The business model of the consolidation platform itself and the operational companies can be best managed and supported using the multilocation concept modified in 2015. The region around Frankfurt am Main is ideally positioned geographically because of its proximity to Germany's biggest financial centre. The operational life insurance companies continue to remain located in Berlin and Heidelberg with the customer-focused service centres.

Customer service for Heidelberger Lebensversicherung AG has been mainly provided by the employees of Heidelberger Leben Service Management GmbH in Heidelberg. Employees in some parts of the organisation were deployed on a temporary basis through employee leasing and through external service providers in order to cover workload peaks and specific knowledge within the necessary scope. Around the end of the year, all of the employees working at the former Heidelberg office were transferred to a new office site located a short car journey away in the Heidelberg suburb of Rohrbach. The new office premises are equipped with advanced information and communication resources and have been designed to be open and transparent with the aim of maximising support for work processes and facilitating personnel exchange and communication.

Customer service for Skandia Lebensversicherung AG (Berlin) is primarily provided by employees at Skandia Versicherung Management & Service GmbH (SVMS). In 2015, the structure of SVMS was modified to match the target structure of the Heidelberger Leben Group. The remaining jobs at the Berlin site with these activity

profiles have been dissolved in the course of 2015 and will continue to be in 2016 in line with the pooling of supporting Group functions. A voluntary social compensation programme was launched in April 2015 and a total of some 50 employees expressed their interest in the plan. Since the plan entailed trusted contacts leaving the company, alignment routines had to be re-established and numerous activities needed to be reassigned.

The business model and the newly formed organisation meant that a large number of processes had to be revised. A number of new system applications were implemented in connection with this.

In July 2015, the Group also enabled apprentices and university students on dual-study programmes to undergo training at the companies of the Heidelberger Leben Group.

In 2015, a considerable workload was undertaken by employees at the Heidelberger Leben Group. The renewal programme was unrelenting and this continues to be the case. It requires existing and new employees to demonstrate an unstinting readiness to embrace change, adopt a different mindset, and learn to operate successfully in a new business model. The Board of Management would therefore like to expressly thank all the employees for their massive commitment. The significant successes already achieved could not have been attained without this dedication.

# Organisation

Heidelberger Leben Group GmbH & Co. KG, with its registered office in Heidelberg, is the parent company of the Heidelberger Leben Group. Since 2 August 2013, the company has held 100% of the shares in Heidelberger Leben Holding AG.

## Governance bodies

The operations of Heidelberger Leben Group GmbH & Co. KG are managed solely by Heidelberger Leben Group Management GmbH.

The operations of Heidelberger Leben Group Management GmbH are managed by the following:

- Dr Heinz-Peter Roß, certified business administrator, Gräfelfing
- Markus Deimel, Master of business and engineering, Neu-Isenburg (from 1 January 2015)
- Markus Maria Eschbach, certified engineer, Overath
- Michael Sattler, certified mathematician/actuary (German Actuaries Society, DAV), Hammelbach
- Falko Loy, certified insurance broker, Seckach

The company is represented by the personally liable shareholders or by their individual managing directors.

## Advisory Board

- Rolf-Peter Hoenen, former spokesman of the Board of Management of HUK Coburg Versicherungsgruppe, Chairman
- Caspar Berendsen, investment advisor, Cinven Partners LLP, United Kingdom, Deputy Chairman
- Dr Michael Kastenholz, managing director of endeavariisk Beteiligungen GmbH, Cologne
- Jonathan Yates, actuary, United Kingdom
- Rory Neeson, investment advisor, Cinven Partners LLP, United Kingdom
- Danièle Arendt-Michels, investment advisor, Cinven Luxembourg S.à.r.l, Luxembourg

## Shareholders

### Cinven

Cinven is a leading European private equity firm, founded in 1977, with offices in Guernsey, London, Frankfurt, Paris, Madrid, Milan, Luxembourg, Hong Kong and New York. It acquires Europe-based companies that require an equity investment of €100 million or more. Its European focus and expertise are complemented by an ability to capitalise on global growth opportunities through its offices in Asia and the Americas. The firm focuses on six sectors: Business Services, Consumer, Financial Services, Healthcare, Industrials, and Technology, Media and Telecommunications (TMT). Cinven acquires successful, high-quality companies and works with them to help them grow and develop, using its proven value-creation strategies. It takes a responsible approach towards its portfolio companies, their employees, suppliers and local communities, the environment and society.

### Hannover Re

Hannover Re, with a gross premium of around EUR 17 billion, is the third-largest reinsurer in the world. It transacts all lines of property & casualty and life & health reinsurance and is present on all continents with around 2,500 staff. Established in 1966, the Hannover Re Group today has a network of more than 100 subsidiaries, branches and representative offices worldwide. The Group's German business is written by the subsidiary E+S Rück. The rating agencies most relevant to the insurance industry have awarded Hannover Re very strong insurer financial strength ratings: Standard & Poor's AA- "Very Strong" and A.M. Best A+ "Superior". In 2016 Hannover Re celebrates its fiftieth anniversary.

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