ERGO under fire – investigation findings and measures
Press conference by ERGO Insurance Group
Düsseldorf, 3 August 2011
Overview

Assessment of particular accusations

Measures introduced and further action
Overview

Initial accusations on 20 April in a newspaper ad by former HMI sales representatives

- A number of accusations made regarding the calculation of commissions and settlements for former sales representatives
- A host of demonstrably incorrect facts
- ERGO obtains an injunction against repetition of seven key accusations
- Remaining accusations generally very broad and vague
- But, accusation directed at Riester policies has a core of truth
Overview

Investigation into accusations by company units, Internal Auditing and PricewaterhouseCoopers

Tasks

- HMI sales representatives’ compensation claims
- Riester state-subsidised annuity insurance business
- Personal accident insurance with premium refunds
- Company pension scheme collective contracts

- Investigation into incentive trips and other misconduct
- Quality assurance of life insurance working group on Riester
- Quality assurance of collective contracts working group on company pensions
- Investigation into single-premium personal accident policies with premium refunds

- Review of Group Auditing on incentive trips
- Review of Riester claims
- Review of claims by former HMI sales representatives
ERGO press conference – Düsseldorf, 3 August 2011

Overview

Apologies at an early stage – both in person and by the company

“Absolutely unacceptable – major error – serious malpractice – exceptionally embarrassing”

DATED 23 MAY

On behalf of the Board of Management, I would like to apologise to all our employees and customers ...

DATED 10 JUNE

When people make mistakes, they apologise. When companies make mistakes, they take action. That’s why we are doing both.

Apology as well as promise by the company to provide exhaustive information and to adopt suitable measures
Overview

Assessment of particular accusations

Measures introduced and further action
### Assessment of particular accusations

**PwC review confirms that the Budapest accusations have been clarified fully and appropriately by the internal audit**

<table>
<thead>
<tr>
<th>Facts</th>
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<tbody>
<tr>
<td>• Incentive trip by top HMI sales representatives in June 2007</td>
<td></td>
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<tr>
<td>• Participants: two managers, 64 self-employed sales representatives</td>
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<tr>
<td>• Costs of services by prostitutes concealed in event invoices</td>
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</table>

**Review of internal audit regarding incentive trips**

**Report dated 15 July 2011**

- The ERGO investigation team adopted the necessary and appropriate investigation measures within the timeframe available. The investigation and audit procedures were conducted with the necessary care and thoroughness, in line with the requirements of professional associations.
- According to our findings, the independence of the internal audit team was assured at all stages.
- According to our findings, the audit team had access to all necessary information and persons. There are no outstanding audit activities. On considering the facts, we have come to the same conclusions as the Group audit.

**PwC concluded that the investigation by the Group audit was conducted thoroughly and appropriately and with the necessary degree of independence.**
### Assessment of particular accusations

**Error in Riester application form is critical concerning how it was dealt with by the relevant department in 2005**

<table>
<thead>
<tr>
<th>June 2005</th>
<th>October/November 2005</th>
<th>April to July 2011</th>
</tr>
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<tbody>
<tr>
<td>• Error in the reprint of an application form&lt;br&gt;• An outdated cost rate was published&lt;br&gt;• Form was correct at the time of the tariff adjustment at the beginning of 2005</td>
<td>• Initial indications of error&lt;br&gt;• Attempt to correct applications for new business till the end of the year with additional explanation&lt;br&gt;• Did not succeed across the board&lt;br&gt;• Individual customer complaints resolved by changing contracts</td>
<td>• Life insurance working group set up after the Handelsblatt ad on 20 April&lt;br&gt;• Error was initially not discovered – only after publishing on 9 June&lt;br&gt;• Letters sent to customers involved in July&lt;br&gt;• Contracts amended in agreement with German Federal Financial Supervisory Authority</td>
</tr>
</tbody>
</table>

**2006/2007**

• Another four customer complaints on cost rates<br>• Only corrected each time in individual contracts
### Assessment of particular accusations

**PwC ascertains that there were failings in previous years – correction of errors in Riester policies is now appropriate**

<table>
<thead>
<tr>
<th>Facts</th>
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<tbody>
<tr>
<td>• Print error during reprint of a form in mid-2005</td>
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<tr>
<td>• Error was recognised in October 2005</td>
<td></td>
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<tr>
<td>• Attempt to resolve error by providing extra explanations only applied to new business</td>
<td></td>
</tr>
<tr>
<td>• No escalation of the problem nor legal verification of the consequences for business in force</td>
<td></td>
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<tr>
<td>• Customers now better off than if the form had been correct</td>
<td></td>
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</tbody>
</table>

### Review of Riester topics

**Report dated 1 August 2011**

- The causes that led to the incorrect rate on the back of the document in question could not be established for certain due to missing or incomplete information.
- ERGO managers neglected to adopt measures to correct the error although attempts had been made.
- The working group’s efforts were not sufficiently documented. As a result, it is not possible to judge whether the measures adopted by the working group were appropriate.
- After the incorrect applications were identified, the customers involved were notified by ERGO about the correction of the error on 12 July 2011.
**Assessment of particular accusations**

**Further investigations conducted in the Life segment**

<table>
<thead>
<tr>
<th>Facts</th>
<th>Collection in Eastern Germany</th>
<th>“Backdating” Riester contracts¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Accusation in Handelsblatt ad on 20 April</td>
<td>• A) Backdating across the turn of the year. Investigation in the context of the claim of deliberately misleading customers</td>
</tr>
<tr>
<td></td>
<td>• Collection of payments in the first year of the policy on an annual basis despite contractual agreement to monthly payment</td>
<td>• B) Backdating within a year in the context of buying funds. This occurs as a matter of course. Aim: achieving full amount of state subsidy; shares in funds are credited to the back-dated day. External legal report: procedure not objectionable</td>
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<tr>
<td></td>
<td>• Surcharges levied for paying by instalments in first year too</td>
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<td></td>
<td>• Period from 09/1990 to 12/1991</td>
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<td></td>
<td>• 1991 facts clarified with Federal Insurance Supervisory Authority; surcharges levied for payment by instalments were set off against subsequent premiums</td>
<td></td>
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<table>
<thead>
<tr>
<th>pwc</th>
<th>Report dated 1 August 2011</th>
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- Based on the information to hand, it can be assumed that customers involved in the collection of payments in Eastern Germany after reunification were reimbursed for the excess surcharges levied for paying by instalments in the second year of cover.

- “Backdating” Riester contracts¹
  - A) In our opinion, the very small number of approx. 300 contracts – approx. 0.15% of total business in force – suggests isolated cases rather than systematic errors.
  - B) Procedure is acceptable in our opinion. Occasional infractions of General Terms and Conditions of Insurance; correction procedure currently planned is appropriate. This procedure is currently in the pipeline.

¹ “Backdating” is used colloquially here for “Bringing forward the technical commencement of a policy”
<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>July 2009</td>
<td>Introduction of single-premium personal accident insurance with premium refunds (UBRE) by the former Victoria’s sales organisation</td>
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<tr>
<td>August 2009</td>
<td>Initial indications of incidents involving switching coverage from non-contributory life insurance</td>
</tr>
<tr>
<td>21 August 2009</td>
<td>1st letter from Victoria Board member in charge of Sales – request to refrain from switching coverage / checks announced</td>
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<tr>
<td>9 October 2009</td>
<td>2nd letter from Victoria Board member in charge of Sales – renewed request combined with a stop to incentives</td>
</tr>
<tr>
<td>January 2010</td>
<td>Launch of UBRE product in other sales organisations with strict rules regarding switching coverage and advisory documents</td>
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<tr>
<td>But</td>
<td>Despite these countermeasures, switches in coverage still took place</td>
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Measures: Customers receive letter offering a further consultation
Customer may request that the coverage switch is reversed
Assessment of particular accusations

**Life insurance working group has been looking into investigation of collective contracts for several weeks**

<table>
<thead>
<tr>
<th>Fact 1: Allocation to incorrect collective size (too small)</th>
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<tbody>
<tr>
<td>- Analysis of business in force shows correct allocation for over 99% of collective agreements</td>
</tr>
<tr>
<td>- Case-by-case checks for remaining contracts</td>
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<td>- Frequently good reasons for discrepancies</td>
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</table>

Customers disadvantaged due to incorrect selection of collective are to be integrated retroactively into the correct collective

<table>
<thead>
<tr>
<th>Fact 2: Individual contracts were signed instead of collective contracts</th>
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<tr>
<td>- In many companies, only one option available with a collective solution</td>
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<tr>
<td>- Differentiated commissions are justified and customary for the market</td>
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<tr>
<td>- Checks necessary and in place (but not complete)</td>
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<tr>
<td>- Abnormalities are checked at length</td>
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</tbody>
</table>

Disadvantaged customers are to be integrated retroactively into the correct collective
Assessment of particular accusations

Interim summary: errors and weak areas identified – measures introduced

Various accusations have a core of truth

Weak areas identified in processes and then clarified

Clarification procedure ongoing since May with good evaluation by PwC

Parallel range of measures introduced – initial results visible
Overview

Assessment of particular accusations

Measures introduced and further action
Measures introduced and further action

Four key areas for further action

A. Strictly adhere to clarification process
B. Reinforce Compliance
C. Implement measures for improving quality of advice in Sales
D. Continue consistent realignment of ERGO that was started in late 2009
Measures introduced and further action

Continue with clarification of errors and accusations with a high degree of commitment

Clarification necessary…

- In many cases, there were already indications of problems before the publications – when they were sufficiently concrete, they were addressed properly
- ERGO clarified the facts promptly
- Continue establishing a clear policy for employees / sales agents in the event of serious misconduct – even if threatened with further press publications

… but

- Topics cover a period of over two decades – clarification is sometimes very difficult without concrete information

ERGO will continue to look into every substantiated accusation and clarify all accusations!
Measures introduced and further action

**Compliance already reinforced before initial accusations became public**

1. Code of conduct for salaried employees introduced in 2008
2. External whistle-blowing hotline set up and communicated both in Germany and abroad
3. Guidelines summarised in a handbook
4. Streamlining compliance queries for Germany and abroad
   - Quarterly instead of yearly
   - Extending content, e.g. anti-fraud enquiry
   - Extending circle of people covered by compliance
5. E-learning programme on compliance
Measures introduced and further action

**Speedy implementation of measures agreed in June to reinforce compliance even further**

1. Compliance set up as a unit in its own right, reporting directly to the Chairman of the Board of Management
2. Decision to appoint company’s own Compliance Officer for Sales
3. Regular, externally certified compliance audit
4. Increase audit capacity for Sales
5. Strict centralisation of the procurement processes in Sales in general
6. More intensive and more regular training and communication on topics relating to compliance

Prevent malpractice –
Promote early detection of problems
Measures introduced and further action

**Code of conduct for self-employed field staff jointly drawn up with sales agents’ representatives**

Clear rules for dealing with the company, sales agents and customers
- Promise to abide by corporate values and ERGO’s guiding principles
- High demands in terms of quality of the consultation process
- Clear standards regarding integrity of conduct
- Sales agents’ representatives contribute rules of conduct as a self-commitment and distance themselves from dubious business practices
- Rules that have been undocumented until now are set out in writing

- Persons representing the interests of sales agents and ERGO now state that the Code of Conduct is binding
- Code of Conduct to become part of sales agent’s contract
Clear language for product documents and advisory documentation

1. Expanded product information sheets
   - We clearly state the benefits **and disadvantages** of products in the product information sheets and in product-related marketing documents.

2. Improved advisory documentation
   - Consensus with sales agents’ representatives: advisory documentation not fulfilment of legal requirements but our opportunity to document our advisory services by our agents.
   - Customer has right to turn down advisory documentation; this must be clearly noted by our agents; no “tick box” solutions!
   - Quality of advisory documentation will be checked regularly.

3. Extension of customer rights
   - Double the period of the customer’s right to withdraw from contract from two to four weeks for all products with a term of over one year.
## Measures introduced and further action

### Measures to assure consistently high-quality advice

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<tbody>
<tr>
<td>4</td>
<td><strong>Mystery shopping</strong></td>
<td>We will commission an external market research team to validate the ongoing development of the standard of our advice using mystery shopping and in order to demonstrate starting points for development potential.</td>
<td></td>
</tr>
</tbody>
</table>
| 5 | **Assessment of advisory services** | Upon concluding a contract, we will offer each customer the opportunity to rate our sales partners and the advice given:  
- Binding presentation of ratings on websites of our sales partners as soon as a representative number of ratings is available  
- Results service to ensure high-quality advice |
| 6 | **Expansion of market research on quality of advice given** | We will establish regular market research into the quality of advice given based on a large sample of 24,000 customers per year – i.e. 100 customers per working day; findings will contribute to ongoing further development. |
ERGO’s repositioning process did not just begin in May 2011

Aims of the campaign to reposition the brand
- Not just brand awareness
- Simultaneous repositioning of the company

ERGO – ‘To insure is to understand’
- We listen
- We speak in clear language
- We get things done

“I want clear language, not legalese.”
The repositioning of ERGO started in late 2009 will be strictly pursued

<table>
<thead>
<tr>
<th>Customer Advocate</th>
<th>Since early 2010, there has been a unit within ERGO that integrates the customer perspective in all processes and looks into possible disadvantages or errors</th>
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<tbody>
<tr>
<td>Clear Language initiative</td>
<td>In March 2011, scientifically proven comprehensibility standards were introduced in order to ensure consistently straightforward, easy-to-understand communication with the customer. For this reason, we feel able to provide a “Guarantee of understanding”.</td>
</tr>
<tr>
<td>Customer Advisory Board</td>
<td>As the first insurer to do so, ERGO is introducing a Customer Advisory Board. In direct dialogue with the management, the Board makes recommendations as to how ERGO’s products and services can be further improved.</td>
</tr>
</tbody>
</table>
Introduction of a Customer Advocate to improve the customer’s point of view in the company

The Customer Advocate…

... pursues the customer’s interests from a comprehensive, cross-departmental point of view

... solves problems for customers with the individual departments

... identifies systematic problems and prompts their speedy and straightforward resolution

... creates a customer report which is then published
Key accusations have a core of truth – weak areas in processes identified

After repositioning, ERGO is already a different company

We will continue on the path we set out on in 2010

Change process in the context of the new corporate guiding principles must be implemented more quickly and more rigorously

The aim is to win back trust and recover our reputation as quickly as possible