

REPORT OF THE MANAGEMENT**EXTERNAL
FINANCIAL SERVICES****Challenging conditions for the insurance sector**

In 2017 the risk environment became more explosive in several respects. With political representatives increasingly looking to their own interests, the number of open conflicts is rising steadily. Even though military conflicts between various great powers are not likely, the political situation can nonetheless be described as tense. Irrespective of this situation, the financial markets are following the same trends as in previous years. Even if interest rates are being slowly tightened in the United States, the financial markets in Europe continue to be supplied with liquidity. A swift and sharp rise in interest rates is not foreseeable, and the equity and property markets are rising.

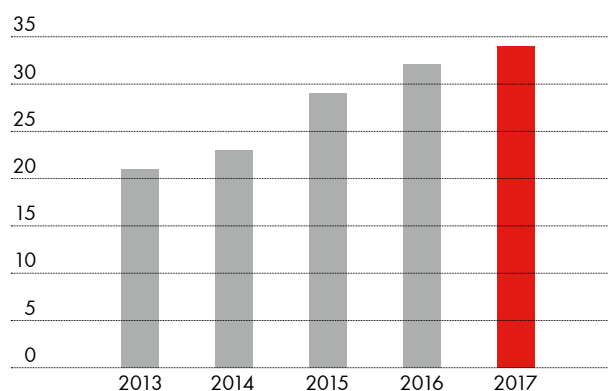
The 2017 hurricane season in the United States was one of the worst of recent years, with damage amounting to over USD 200 billion. Climate change is a risk factor that will become increasingly important for insurance companies. Even though insurance premiums remain under price pressure, it is likely the global costs of damage from bad weather will steadily rise, and that this will lead to higher premiums in the medium term. Increasing risk potential can also be seen in cyberattacks. While in recent years the main targets of cyberattacks have been large entities and companies with particular IT exposure, the threat has now also reached even the smallest of companies. There is steadily growing awareness of the danger, but the market still shows no broad acceptance of the corresponding insurance products. In this situation, it is to be feared that over the coming years companies will suffer further increasing, large-scale losses as a result of cyberattacks.

The brokerage market in Switzerland: digitalisation and consolidation trends

In common with other markets, the brokerage market in Switzerland is experiencing the effects of digitalisation. Even though many procedures are still handled manually by brokers, this situation will change dramatically in the future. IGB2B, an interest group, brings together insurance companies, system providers and insurance brokers. Its members have committed to a digitalisation roadmap through to 2020. Provided the timetable does not slip, within a very short space of time the insurance brokerage sector will face a key change of direction involving the redefinition of core processes. The future of the brokerage business is digital, and clients will not be willing to pay their brokers for inefficient processes.

The question arises as to how relatively small brokerage organisations will meet the challenge of digitalisation. Some organisations will probably join forces with larger partners so that they do not have to invest in automated processes themselves. This will also resolve the succession question. The consolidation in the Swiss brokerage market will therefore continue unabated: in 2017 there were once again a number of mergers and acquisitions, affecting some well-known organisations.

Number of Field Staff





“The insurance brokerage market is consolidating. We offer attractive solutions for collaboration to service providers in this industry!”

Adrian Parpan
Managing Director, Würth Financial Services AG

Focal points for Würth Financial Services AG

Adjusting to the developments in digitalisation is one of the focal points for Würth Financial Services AG. In 2017 a project was launched to replace the existing contract management system. The aim of the new system is to create the conditions for being state of the art in the context of automation and digitalisation, and thus establish the technical foundations to be able to make the necessary process adjustments.

A second focal point is the acquisition of small-scale brokers. Last year two organisations transferred their client base to Würth Financial Services AG, and others will follow. The positive experience gained from these integrations will help when it comes to integrating other brokerage organisations in comparable situations into the company's structures. It is intended that part of the company's growth will continue to come from integration of this kind.

In 2017 Würth Financial Services AG invested further in the human resources structure of the individual branches. The headcount increased from 63 to 65. The distribution structure, and thus organic growth, remains the main driver of successful business performance. Our account managers collaborate closely with the specialist teams for the various insurance lines to ensure both the quality of client care and sustained client and revenue growth.

With respect to the individual areas of business, the insurance market remains very soft outside personal insurance. Significant premium savings can be achieved by inviting providers to tender. With regard to the threats from cyberattacks, Würth Financial Services AG has responded and has had specifically tailored cybercrime cover developed in collaboration with an insurance company. This product ensures that the clients of Würth Financial Services AG have straightforward access to cover solutions in this area.

In individual life insurance, low interest rates mean there are practically no attractive products being offered on the market now. Würth Financial Services AG has reduced its activity in this area. There are also significant challenges for providers in group life insurance: pension schemes must find alternative investments because of low interest rates, while underfunded liabilities are emerging because of the rejection of the “2020 pension reform”. It is likely that companies will need a great deal more advice on this subject in future. This area will also be one of the key pillars of the future range of services offered by Würth Financial Services AG.

Business performance

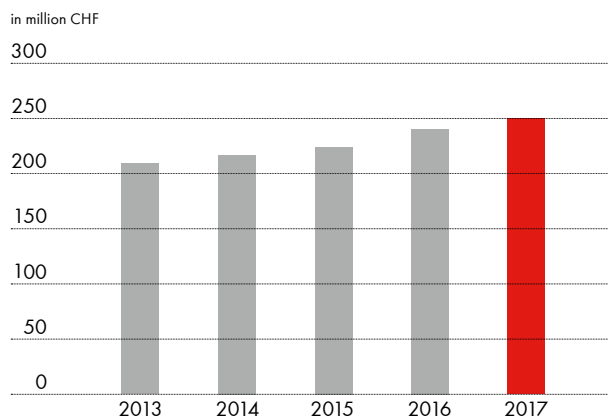
Würth Financial Services AG ended 2017 with record sales. They increased by 4% compared with the previous year. In the same period the volume of insurance premiums rose from CHF 240 million to CHF 250 million. The number of corporate clients also increased to 2,650.

As in the previous year, the Rorschach branch made an above-average contribution to growth. The company drew great benefit from the profile that the Würth Group and the Würth House Rorschach enjoy in eastern Switzerland, where it is regarded as an attractive employer. In terms of clients, staff and sales, this leads to a positive acquisition experience and sustained growth, as is reflected in the key figures for 2017. The units in Urdorf, Lugano and Arlesheim also advanced during 2017 and are very well positioned in terms of their structure.

With regard to the individual areas of business, non-life grew by 6%. This growth is attributable to both organic growth and the acquisition of two brokerage organisations. In group life, an increase in income of 5% was recorded, while individual life registered a 22% drop in income.

On the cost side, personnel costs for sales consultants rose by 7% while remaining stable for non-field staff. The operating result improved by 9% over the previous year, in line with expectations.

Development of Premium Volume Non-Life



Outlook for 2018

One of the important focal points in 2018 for Würth Financial Services AG, besides organic growth, will be integrating more small-scale brokers. This will involve achieving the corresponding growth targets with respect to the number of clients, portfolio volume and the number of staff. Besides the growth

target, the focus will be on optimising processes in the shift towards digitalisation and automation. Efforts will be centred on preparations for switching to the new contract management system, which is expected to result in a significant increase in productivity from 2019.



MANAGEMENT WÜRTH FINANCIAL SERVICES AG

from left to right: **Adrian Parpan** (Managing Director) | **Beat Jordan** (Managing Director) | **Luciano Viotto** | **Hansruedi Strotz**

EXTERNAL FINANCIAL SERVICES AT A GLANCE

Core business

The External Financial Services Division operates under the legal entity of Würth Financial Services AG, one of the leading independent providers of pension and insurance services to corporate clients and private persons in Switzerland.

Experienced consultants and highly qualified specialists draw up tailor-made solutions and advise clients on the best choice of pension and insurance products.

Services

- Insurance brokerage for both corporate and private clients
- Management and operation of company occupational pension schemes
- Pension and pension planning for private persons and employees of corporate clients

Facts and figures (at 31 December 2017)

Number of corporate clients: 2,650

Premium volume: CHF 250 million

Number of employees: 65 (57 FTE)

Four locations: Rorschach (head office), Urdorf, Lugano, Arlesheim