

Report of the Management

EXTERNAL FINANCIAL SERVICES

Change has arrived in the insurance industry! Digitalisation is making its mark in everyday operations; new business models are emerging and there is an increasing awareness of the danger of potential disruption in the sector. The challenges are considerable but the major players are slow to evolve. For insurers and insurance brokers, the art is in achieving further growth in saturated markets while at the same time reducing costs through more efficient processes and adjusting their systems to new technologies. In doing so, they must not disregard the developments that have been predicted.

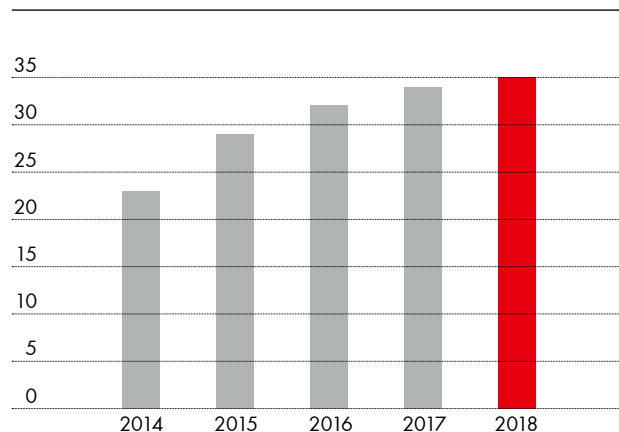
For Würth Financial Services AG, too, the challenge in 2018 was to manage the balancing act between continuing with the tried and tested and finding its way in a new world. The top priority was always to work for the benefit of clients. The delight and commitment in winning new clients was also key to success. At the same time, attention was given to taking the company as a whole forward, but above all its employees. In insurance, with its heavy reliance on advice, the staff are the central interface between client needs and Würth Financial Services AG. It is due to the firm commitment and passion of its employees that Würth Financial Services AG can look back on a successful 2018.

The insurance market and the brokerage market in Switzerland

Various trends from previous years continued to be felt in 2018. Consolidation is advancing, the possibilities of automation seem limitless and regulatory requirements are increasing.

Given the needs with regard to developing the technology, there is an ongoing trend towards larger entities for insurers as well as brokers. Capital expenditure in technology is growing. For insurance brokers in particular, which have hitherto been able to operate easily as very small companies, the question as to critical size looms larger. In 2018, the wave of consolidation both nationally and internationally became still more marked. It is noticeable that foreign insurance brokers are increasingly penetrating the Swiss market. After the French broker Verlingue entered the market in 2017 by taking over S&P Insurance Group and Advantis Versicherungsberatung AG, in 2018 one of the world's largest insurance brokers, Arthur J. Gallagher & Co., ventured into the Swiss brokerage market, likewise by acquiring a medium-sized broker. For insurers, too, the trend towards consolidation continues, as demonstrated by the takeover of XL Group by AXA SA.

Number of Field Staff





“The new management system for our clients’ insurance contracts enables the level of automation to be increased and simplifies dealings with clients.”

Adrian Parpan
Managing Director, Würth Financial Services AG

Automation poses a number of issues for the insurance sector. For instance, technological advances make it likely that claims ratios along with insurance premiums will trend downwards. This thesis is illustrated by examples such as the preventive effect of smart home functions that lead to fewer burglary claims or water damage incidents, or in the sharing economy, which might mean a smaller number of vehicles and an associated fall in premium volumes for motor vehicle insurers. With respect to client advice, sales consultants conducting standardised retail business will probably be increasingly assisted by digital advisory processes. If human advisors are in fact mostly no longer needed in this business, a large number of private and business client consultants will face the challenge of having to adapt the work they do.

The challenges are steadily growing with respect to regulatory requirements as well. With the General Data Protection Regulation and the revision of the Insurance Mediation Directive, additional regulatory framework conditions have been created in the EU and EEA. These standards will also be implemented in Switzerland in one form or another in the foreseeable future. If they are to continue to meet new requirements, businesses will need to devote additional resources to these areas of work.

Focal points for Würth Financial Services AG

In view of the variety of challenges it faces, Würth Financial Services AG has defined three focal points for its ongoing development. The first focal point is sustainable growth in the sales operation. For this reason, the structure of sales has been reconfigured in order to ensure organic growth in coming years. The integration of further small brokerage entities is another important area of work. For small entities, Würth Financial Services AG offers the ideal platform for lasting business operations in the future.

The second focal point is processes. Würth Financial Services AG aims to establish processes that are as efficient as possible. With this in mind, the company switched over to a new management system as of 01 January 2019. This enables the level of automation to be increased in connection with core processes in the back office and simplifies dealings with clients. The system change creates the basis for ongoing technological development.

The third focal point is staff. In order to benefit more effectively from leaner processes, administrative work is being centralised at the head office in Rorschach. Consolidated administration at a single location makes deputy arrangements simpler and enables more focused development and training of employees. In addition, Würth Financial Services AG will benefit from scale effects. The anchoring of branches in their local areas will be ensured by the account managers and specialists, so clients will continue to be served on a regional basis.

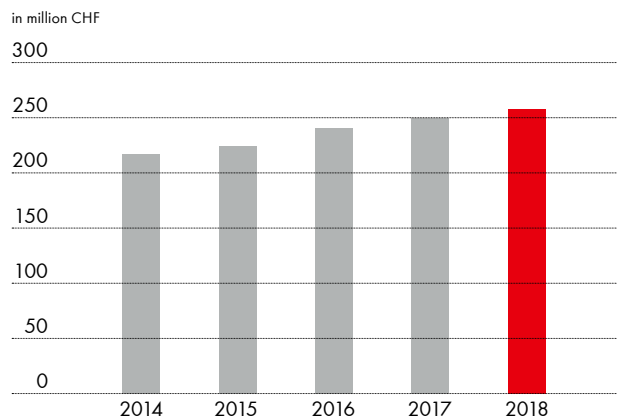
Business performance in 2018

2018 was a successful financial year for Würth Financial Services AG. While premium volumes for the non-life insurance contracts it looked after rose by CHF 8 million to CHF 258 million, the number of corporate clients as at the end of 2018 was 2,608.

Würth Financial Services AG recorded a small increase in sales compared to the previous year. Expectations for the acquisition of new clients were met last year, though premium reductions resulting from tendering and isolated client losses prevented a higher level of growth. In addition to organic growth, the integration of Iverba AG at the Urdorf location was initiated and successfully executed during 2018. This integration is a further step in the successful acquisition of small brokerage entities looking for a lasting solution to their medium-term succession arrangements.

With regard to operating expenses, personnel expenses rose while administrative expenses were reduced compared to the previous year. The rise in personnel expenses was attributable to rising costs for sales consultants and reflects ongoing investment in the sales set-up. The operating result improved by almost 14%, exceeding expectations.

Development of Premium Volume Non-Life



Outlook for 2019

For 2019, Würth Financial Services AG has set itself the goal of consistently pushing forward on its three focal points: sales, processes and staff. Achieving growth objectives organically as well as through further acquisitions of small brokerage entities is of eminent importance. Only by achieving steady profitable growth can it be ensured that the necessary funds are available in the long term for further investments and the continuous development of systems and procedures.

Enhancing productivity will be essential for the future. Irrespective of processes, Würth Financial Services AG in 2019 will continue to focus its employee-related initiatives on enhancing staff structures, fostering existing employees and striving to recruit suitably skilled employees for the company. Through the corporate culture that is lived out in the Würth Group, characterised by family values and predictability, Würth Financial Services AG is an attractive employer in an evolving sector.



MANAGEMENT WÜRTH FINANCIAL SERVICES AG

from left to right: **Adrian Parpan** (Managing Director) | **Luciano Viotto** | **Beat Jordan** (Managing Director) | **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
- Pensions and pension planning for private persons and employees of corporate clients

Facts and figures (at 31 December 2018)

Number of corporate clients: 2,608

Premium volume: CHF 258 million

Number of employees: 59

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