

Report of the Management

EXTERNAL FINANCIAL SERVICES

Supply bottlenecks, rising prices and a focus on sustainability all shaped the business environment in 2021. The COVID-19 pandemic, which has dominated headlines for the past two years, has remained ever-present. In addition, companies still face the challenge of meeting the demands of digitalisation, finding solutions to the shortage of skilled workers, and establishing measures to protect against cyber attacks. Many companies were able to adapt excellently to this environment and can look back on a successful financial year 2021 that significantly exceeded expectations. Würth Financial Services AG ("WFS") also surpassed expectations by a wide margin in 2021 and steadily adjusted its own forecasts upwards over the course of the year.

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Insurance market situation

Having faced higher claims payments in 2020 due to the COVID-19 pandemic, severe weather dominated the claims picture for the insurance market in 2021. Floods and hailstorms caused massive damage in many places in Switzerland, as well as in Europe, and put a strain on insurance companies' balance sheets. This contrasted with the positive developments on the financial markets, which bolstered insurance companies' results.

The growing number of successful cyber attacks is posing major challenges for the insurance market. Just a few years ago, it was rare for an SME to take out cyber insurance. Clients had to be offered rock-bottom prices to be persuaded. Today, cyber attacks are among the biggest threats on a company's risk map. The claims burdens on insurers' books are rising steeply, and many customers are now facing the question of whether sharp increases in premiums and the reduction of coverage limits are still commercially viable.

The trend towards premium increases in the corporate clients business remains unbroken, while the reduction of limits – especially in the international environment – means that the cover needed can only be found with great effort or is no longer offered at all. Conditions in the insurance market are becoming increasingly tough, and there is no end in sight. Not least due to the COVID-19 pandemic, this is particularly true in the personal insurance market, where higher claims and a lack of competing offers are leading to huge premium hikes.

Continued consolidation of the insurance broker market

A wave of consolidation is still dominating the insurance broker market. A number of national and international mergers occurred again in 2021. The frequent participation of pure financial investors in these transactions is striking. In combination with the current market situation, insurance brokers' business model is highly attractive to investors. A significant example from 2021 comes from the UK, where Howden Group acquired the broker Aston Lark for around USD 1,500 million. However, the competition authorities still need to approve the acquisition. Such approval was denied in the case of the mega-merger between Aon and Willis Towers Watson, with major cost implications for Aon.

This trend can also be seen in the Swiss broker market, which is likewise considered highly attractive and draws investors from outside the industry. It is notable how many international broker organisations are gaining entry to the Swiss broker market through acquisitions. Howden, Gallagher, Verlingue, Burrus and Südvers are examples of international brokerage houses that have recently moved into Switzerland. These market dynamics also resulted in transactions in 2021. The acquisition of IBC by Qualibroker, for example, involved two of Switzerland's largest brokers.

Focal points in the financial year

In terms of sales, 2021 made a rather subdued start. The work-from-home obligation made the efforts to personally introduce WFS to new clients much more difficult. In the first months of 2021, we therefore focused on supporting existing clients and preparing tenders and annual review meetings. Many clients issued invitations to tender for occupational pension plans due to a backlog in 2021. Following the financial market developments in March 2020, companies had postponed their pension scheme tendering projects by one year.

Digital transformation and improving process efficiency were a major theme in 2021.

The tougher conditions on the insurance market were very apparent when tendering for contracts. Risk concepts frequently needed to be revised due to limit reductions and premium increases, and it was not always possible to find satisfactory solutions for clients. From a sales perspective, however, the more difficult environment also gave greater impetus to clients, who were more likely to look for alternatives and seek second opinions from other insurance brokers. WFS benefited from these market movements.

Digital transformation and improving process efficiency were a major theme in 2021. Alongside the integration of new tools in the area of tendering, efforts focused on digital invoicing. Thanks to the new module, the invoice processing time – from incoming mail to dispatch – has been significantly reduced. Through this process, WFS is reaping the benefits of machine learning and artificial intelligence developments for the first time. The potential offered by these developments is enormous and can be transferred to other processes.

Management Würth Financial Services AG



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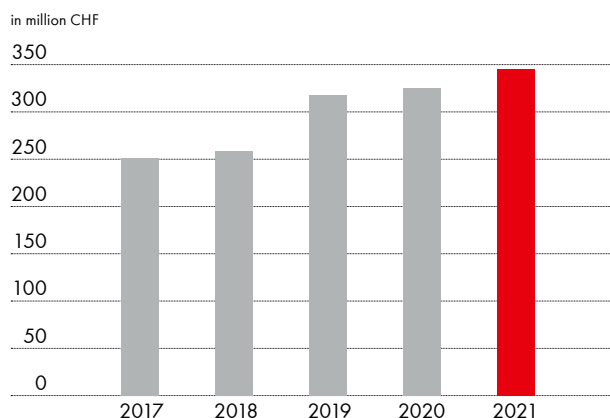
Business performance 2021

Forecasts for 2021 were subject to a high degree of uncertainty due to the COVID-19 pandemic. Despite the limited sales opportunities in the first half of the year and thanks to encouraging new business in the second half, the premium volume in 2021 increased to CHF 345 million. This represents an increase of 6% compared with the previous year. Revenue also rose by almost 5% year on year.

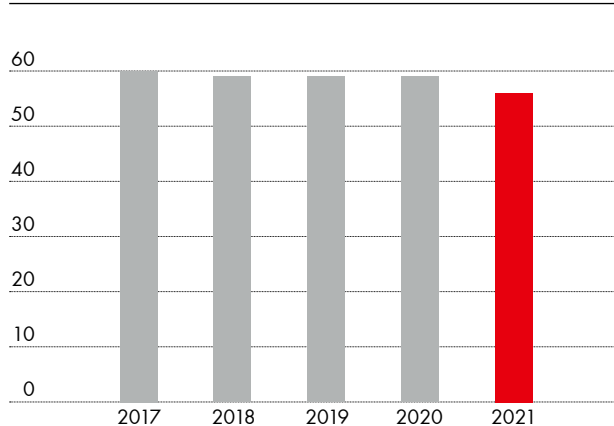
The number of employees declined to 56 from 59 in the previous year. While the number of sales representatives remained unchanged at 32, the number of office staff declined to 24 from 27 in the previous year. This development is attributable to the centralisation of the back office at the Rorschach site. The digitalisation efforts made also meant that the workload could be handled by a smaller number of employees. At the same time, human resources was outsourced to the shared services organisation of Würth Management AG in 2021. The almost 10% rise in office staff productivity should be viewed as a success and shows that the investments in process automation are also paying off financially.

Due to the investment in digitalisation, IT costs rose further. The year-on-year increase amounted to more than 40%, with the use of the new tendering tools and the further development of the policy administration system the main drivers of this development. Other administrative expenses remained constant compared with the previous year, while the operating result rose by 19%.

Development of premium volume



Number of staff



EXTERNAL FINANCIAL SERVICES

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 corporate and private clients
- Claims management
- Pension fund advisory services for corporate clients
- Insurance solutions for credit card issuers and payment providers

Outlook for 2022

WFS intends to continue the growth trend of recent years in 2022. In particular, it aims to further increase the number of sales representatives and broaden the reach of its branches. The number of office staff will remain unchanged, with growth absorbed through more efficient processes. The digitalisation of additional core processes will remain a focal point in 2022.

Facts and figures (at 31 December 2021)

Number of corporate clients: 3,600

Premium volume: CHF 345 million

Number of employees: 56

Five locations: Rorschach (head office), Zurich, Lugano, Arlesheim and Chur

It is anticipated that the insurance market will remain challenging. Clients will demand a professional service and a high level of advisory expertise, and the competition for specialists will further intensify. Thanks to the Würth Group's stability and the family values that characterise its corporate culture, WFS offers excellent development opportunities for employees in the insurance sector. It is superbly positioned to meet the current challenges over the coming year, as well as in the long term.