

Report of the Management

EXTERNAL FINANCIAL SERVICES

Innovation was the watchword at Würth Financial Services AG (WFS) in 2022. Thanks to InsurHub, insurance policies can now be taken out in entirely digital fashion with just a few clicks, using the Twint payment app on a smartphone. Through this project WFS has established a foothold in digital insurance sales, and it was awarded second place out of 35 competing projects at the 2022 Swiss insurance industry innovation awards. A milestone in the history of WFS and affirmation of InsurHub's potential!

Würth Financial Services pushed forward in all key areas – in sales, organisation and digitalisation.

In the core business, 2022 was marked by an increasingly challenging insurance market and by the ongoing wave of consolidation among insurance brokers. Despite this environment, WFS pushed forward in all key areas – in sales, organisation and digitalisation – and can look back on a successful financial year 2022.

The challenges in the insurance market are growing

While in previous years insurers were feeling the effects primarily of climate risks and of the pandemic, in 2022 additional challenges had to be faced as a result of the war in Ukraine and rising inflation. Negative trends on the financial markets also put further pressure on insurers and are likely to have a negative impact on their results.

The consequences of inflation and supply difficulties are exemplified in motor vehicle insurance, which is an important area of business for the industry. Prices for spare parts have risen across the board, which makes repairs more expensive. As a result, the cost of processing claims has risen significantly, and this increase will be passed on to consumers through higher premiums in subsequent years.

The issue of sustainability is also increasingly dominating the agenda of the insurance industry. The direct connection between climate change and losses from environmental events impacts insurers' results. Given the rise in global warming, calculation models show that if the climate policy target of 1.5 degrees is rapidly exceeded, a point of no return could soon be reached, beyond which certain risks are no longer insurable. In response, insurers are beginning to apply environmental, social and governance (ESG) criteria in assessing the risks they insure and to classify them by means of premium adjustments. The extension of risk analysis to include sustainability, diversity and social responsibility will have an increasing impact on insurance premiums.

The battle for critical size in the brokerage market

The challenges in the insurance market mean that brokers are working on an altered basis. Increasingly, customers have to be confronted with premiums going up even though they have made no claims. After many years in which a soft market and steadily lower premiums prevailed, the current environment requires a great deal of tact on the part of advisors. In addition, brokers face other complex issues in risk management besides sustainability and supply chain challenges: the severe energy crisis, integral corporate security, increased compliance requirements, ubiquitous cyber threats

or even corporate health management are examples of such issues. The resulting demands made by clients require in-depth expertise and present brokers with the challenge of investing in the appropriate specialists despite a very tight labour market. The shortage of skilled staff remains a constant difficulty and requires investment in the training of brokers' own employees to ensure ongoing growth.

A second critical area of investment for lasting growth is digitalisation. Whether in sales, advising, risk analysis and assessment or the claims process, digital support tools with automated data analysis and processing are gaining in importance in terms of providing clients with a high-quality service. The industry is only just getting started in this regard, and the potential for using digital solutions is far from exhausted.

The current consolidation in the brokerage market must also be seen against the backdrop of these varied challenges. Without the requisite critical size, a broker may be able at present to survive in the marketplace through its close client relationships and sound expertise, but in the medium term it is likely to be difficult for a relatively small operator to compete with the service offerings of the large brokers. The investment needed in people and technology is considerable, and, with the market remaining a very attractive one, many brokers are choosing to join forces with a larger provider.

InsurHub: an innovative mainstay for WFS

Unveiling and enhancing InsurHub was a key initiative for WFS in 2022. Combining an insurance product structured in full digital fashion with the payment app Twint, which has almost five million active users, opens up previously unavailable market potential for the digital sale of insurance. Clients are provided with an insurance offer via their smartphone, which can be taken up and paid for directly via InsurHub. The process of taking out the insurance policy is greatly simplified through the immediate visibility of the policy and of the general insurance conditions in the app.

Unveiling and enhancing InsurHub was a key initiative for Würth Financial Services in 2022.

Additional products and functionalities, as well as suitable marketing measures, are intended to achieve the further scaling of the platform. InsurHub will become increasingly significant both for clients and for WFS as an additional mainstay of its business.

Enhanced efficiency through progress in digitalising core processes

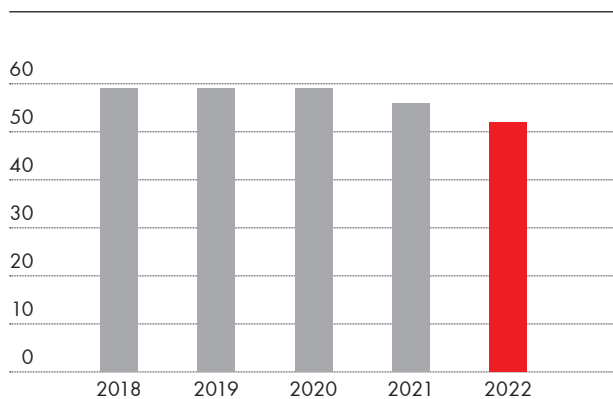
In modernising the process landscape, the focus in 2022 was on the core processes of client communication, claims notification and contract tendering. A switch was made to deploying Brokerbusiness and Sobrado, both tools commonly used in the marketplace for the purpose of contract tenders, and the results in terms of process quality and efficiency were very positive. The use of artificial intelligence, which began in 2021, was extended last year to include the new communications module and ensures significantly reduced cycle times for written communications with clients. The client portal for the notification of claims was optimised to allow claims to be submitted digitally from end to end. This shortens the individual process steps and reduces potential sources of error.

The continuous improvement in the process landscape through digitalisation measures will continue to be a high priority within WFS.

Successful course of business in 2022

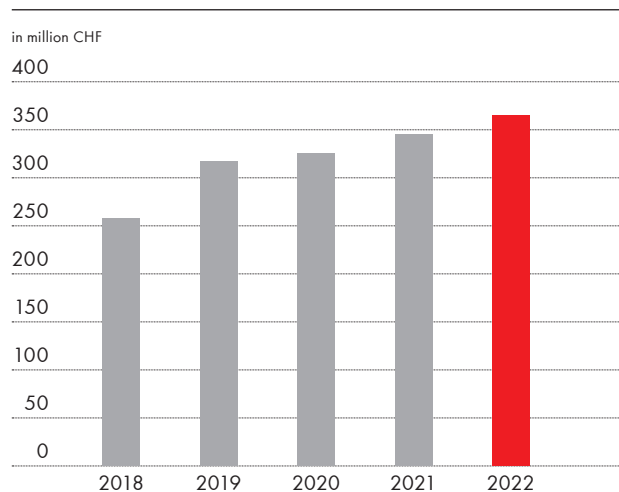
WFS can also look back on a successful financial year in terms of its key figures. The number of corporate clients increased year on year from 3,600 to just under 3,700 and the volume of brokered premiums expanded to CHF 365 million, representing growth of 6%. The number of private clients also rose in 2022 to a total of 5,600. This increase needs to be seen in the context of the InsurHub digital sales channel. Over the last 10 years, WFS has been able to increase its premium volume by an average of 7%. With the exception of the acquisition of Optima Versicherungsbroker AG, this growth was achieved organically.

Number of staff (FTEs)



As a result of the expansion in premium volume, revenue also increased by just under 5% in 2022, which equates to a new revenue record for WFS. At the same time, the number of sales representatives remained constant compared with the previous year at 32 employees (FTEs). The number of office employees was reduced from 24 to 20, which shows a direct effect from the digitalisation measures taken to increase efficiency. Administrative expenses rose by 1%, while IT expenses were up by 15%. All these effects brought growth in the operating result of 7%, which means a new record result in 2022.

Development of premium volume



Outlook for 2023

WFS expects growth in 2023 will be similar to what it was in previous years. While growth in the core brokerage business is to be generated primarily through traditional sales operations, the course is being set with regard to InsurHub such that substantial scaling can be achieved in subsequent years. The further development of functionalities, connecting up

new insurance companies and the launch of new digital insurance products will be the focus in the next financial year.

Even though the overall economic outlook is characterised by many unknowns and major uncertainties, WFS is very well positioned, despite these challenges, to continue on its growth path.