Profitable growth in commercial insurance
Key figures for the German insurance market

The German insurance market is highly interesting: This is shown both by selected key figures and by the current challenges and developments.
Selected key figures for the German insurance market

Basic data¹: €83.2m Population €3.34bn GDP² €40.1k GDP per capita
0.5% Inflation rate³ 6.63% Insurance penetration⁴ AAA Country rating⁵

Property and casualty (P&C)
Private lines
• Largely saturated market
• (Very) strong competition
Commercial business
• Growing market
• Growing competition

Life insurance
Challenging business environment due to volatile financial markets and low interest rates
Private lines
Market trend toward biometric risks and new products without guarantees
Company pension plans
Currently stagnating market with exception of high growth in working time accounts

Health insurance
Private lines
Uncertainty in comprehensive insurance due to political discussion and growth in the area of supplementary insurance
Company health insurance
Relatively small market (currently ~10,000 companies) with unchanged high demand and growing distribution

Profitable growth in commercial insurance ¹ 2020; ² Gross domestic product; ³ 2.5% as of May 2021; ⁴ Gross premiums written by primary insurers in relation to gross domestic product.
⁵ Standard & Poor’s (S&P); Source: DESTATIS, GDV, Strategy& research and estimations
Developments and trends in commercial insurance

The German commercial insurance market in particular is highly attractive, and more and more competitors, both from within and outside the insurance industry, are entering market and gaining momentum accordingly.
Current and expected market development in commercial insurance are putting pressure on competition

Penetration of traditional private insurers into the commercial insurance business

Commercial insurance business under pressure from several sides

Penetration of traditional industrial insurers into the corporate customer segment

Additionally, competition in the industry and intrusion of “industry outsiders”, e.g., large industrial brokers and industrial trading platforms as well as completely “new competitors” using mainly the direct channel (such as Andsafe or Mailo)

Profitable growth in commercial insurance strategy

1) Many competitors (e.g., HDI and Zurich) with explicit growth strategy in commercial business, Generali from 2022 onwards
Our approach for profitable growth

In order to achieve the desired profitable growth, a clearly defined strategic program is required. With its help, we concentrate on the industries with the highest growth potential and focus our efforts accordingly. This is how we inspire our customers and help them achieve their ambitious growth targets.
Inspiring customers and partners across all commercial market segments

More strategic level

1. Understand markets and customers
   • Analyse and segment the market
   • Identify attractive industries

2. Develop products and services that meet needs across all lines of business

3. Provide products and services
   • Decide on appropriate sales channel mix
   • Offer competitive products and services

4. Win customers
   • Advice customers on their needs
   • Sell products and services

5. Retain customers
   • Provide superior customer service
   • Serve customers empathically

Main objective:
inspired customers

More operational level
Only delighted customers are loyal customers and thus make a significant contribution to the growth story

Enthusiastic property and casualty customers ...¹

... own 10% more insurance products than critical customers

... are 40% less likely to switch insurers

... recommend their insurer four times more often

... bringing a multitude of benefits with them:

+ Cross-selling
+ Share-of-wallet
+ Premium income
+ Portfolio stability
+ Premium income
+ New business
+ Market share gains
+ Premium income
Understanding
the market and
its participants

The commercial market is not a closed, homogeneous market. Rather, we recognize clearly delineated “submarkets” that are subject to individual, very different success criteria and each of which has a high level of attractiveness.
Based on selected (defined) characteristics customer segments must be clearly distinguished

<table>
<thead>
<tr>
<th>Customer segment²</th>
<th>Micro SME</th>
<th>Small enterprises</th>
<th>Mid-corp</th>
<th>Large commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segmentation by</td>
<td>Industry affiliation</td>
<td>Intermediary</td>
<td>Individual risk</td>
<td></td>
</tr>
<tr>
<td>Sales approach</td>
<td>Multi-channel</td>
<td>Partnering</td>
<td>LoB³-Broker</td>
<td></td>
</tr>
<tr>
<td>Product type</td>
<td>Cross-divisional</td>
<td>Division-specific</td>
<td>Individual underwriting</td>
<td></td>
</tr>
</tbody>
</table>

1) For P&C, Life and Health; 2) Segmentation on basis of revenue in €M: 0-2 micro SME, 2-10 small enterprises, 10-50 mid-corp, > 50 Large commercial; 3) Lines of business
Approximately 2.7 million companies generate revenues of €5,500 billion in the commercial insurance sector.
Identifying the “sweet spots”

With the help of advanced and comprehensible analyses and together with our clients, we define the most promising market segments that either offer them short-term growth opportunities and/or promote their long-term growth targets. Together we will mirror these so-called sweet spots against our experience and discuss findings and deductions with our clients.
Mirroring industry-individual growth prospects against “Covid-19” impacts and identifying sweet spots

Sales and employment growth in SMEs

Short-term growth opportunities in and after the Corona pandemic can be exploited through targeted measures
- In stationary retail, winners and losers of the pandemic are differentiated by their level of digitization and product range – example grocery and drugstore as well as all leisure-related topics (DIY stores, bicycles)
- Online business models with very strong growth

Long-term positioning in selected focus industries based on sweet spot
- Massive boom in IT impacts all business models in the digitization theme area
- Increased awareness of health
- Construction and real estate with still strong demand – increasing bottlenecks in global supply chains (e.g., wood and dry construction materials)
Developing needs-based products and services

An absolute prerequisite for achieving growth targets is a holistic understanding of the customer and the earliest possible consideration of specific customer needs within product and service development.
Developing products and services that meet customer needs across all insurance divisions

1. **Exemplary focus industries**
   a. Offering **short-term growth opportunities** in retail
   b. Promoting **long-term growth objectives** in
      - Information und communication
      - Real estate
      - Construction
      - Health and social services

2. **Holistic understanding of future customers**
   in the individual industries, divided into four categories

3. **Comprehensive marketing and sales approach**
   based on concrete customer needs in
   a. **P&C Insurance**
   b. **Life Insurance**
   c. **Health Insurance**

**Four categories** (incl. according customer needs)
Caring for sustainable profitability

A number of insurance companies continue to write partially unprofitable business, especially in the commercial insurance segment. One of the main reasons for this is certainly the corresponding pressure on sales in a highly competitive market.
Particularly, in commercial insurance, there are a number of specific risks that repeatedly cause underwriting losses.

**Premium income in % of total**

- **25%**
  - A
  - B
  - C
  - D

- **20%**
  - E
  - F
  - G
  - H

- **20%**
  - I

- **15%**
  - K
  - L
  - M
  - N

- **10%**
  - O
  - P
  - Q
  - R

- **5%**
  - U
  - V
  - W
  - X

**Combined ratio**

- < 90%
- 90-100%
- > 100%

**Risk type**

- A … Z

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1) Anonymized client example
2) Product category
An accurate knowledge of underlying risks is, in combination with qualified risk prevention, the decisive key to success.

<table>
<thead>
<tr>
<th>Three level-of-defence model …</th>
<th>to generate additional premium income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Risk minimization through preventive value-added services</td>
<td>Insurers actively help their customers manage risks through preventive service offerings that they provide themselves or through partners&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>2</strong> Risk minimization through expertise and consulting</td>
<td>Insurers advise their customers on how they can best avoid possible risks themselves or advise their customers on sensible preventive measures&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>3</strong> Risk to be insured remaining/residual risk</td>
<td>The risk to be insured is underwritten by the insurer in the form of modular solutions and with the help of individual underwriting according to need, whereby underwriting powers vary segment-specific</td>
</tr>
</tbody>
</table>

Tapping into the additional revenue potential requires new consulting and service offerings and necessitates the use of state-of-the-art technologies, such as analytics tools and service provider networks for prevention.

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1) E.g. IT service providers for extended firewall services (to protect the client against cyber crime)
2) E.g. analysis and advice on fire protection

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Profilable growth in commercial insurance Strategy&
Particularly in the area of commercial insurance, a number of products, customers, or even intermediaries sometimes have a negative value contribution. This is often due to excessive discounts granted by agents to their customers or unidentified and/or unpriced risks. Accordingly, professional risk-based pricing and ongoing monitoring of compliance with agreed sales specifications and rules are important.
An example of portfolio evaluation clearly illustrates the need to agree “fairer” prices and to question customer relationships.

### Restructuring Unprofitable Customer Relationships

<table>
<thead>
<tr>
<th>Total Portfolio</th>
<th>Special Products for Selected Sales Partners</th>
<th>Single Contracts</th>
<th>Bundle Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remaining Portfolio</td>
<td>Score &lt; 1.2</td>
<td>1 Individual special measures</td>
<td>2 Sales-focused measures</td>
</tr>
<tr>
<td>Score &gt; 1.2</td>
<td>3 Realignment single contracts</td>
<td>4 Realignment bundle contracts</td>
<td>5 Remediation of heavily loss-affected contracts</td>
</tr>
<tr>
<td>New Business</td>
<td>6 Introduction of new business tariff</td>
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</table>

Score value = measure of the (in)efficiency of contracts; determined as follows:

- Score value > 1.0: The individual contract is making losses; for example, a score value of 1.2 indicates the need for a 20% premium increase.
- Score values > 1.2: as a rule, “normal” measures can no longer be used to get the situation under control (a sustainable cut is necessary).
Offering a superior customer experience

In this context, the corporate boundaries that exist today or the different objectives of the divisional management boards must no longer have a negative impact on the customer’s service experience.
Offering best-in-class customer experience across all touchpoints

Relative explanatory power of the respective field of action for customer orientation

<table>
<thead>
<tr>
<th>Field of action</th>
<th>What matters to the customer?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service quality</strong></td>
<td>Good accessibility</td>
</tr>
<tr>
<td></td>
<td>Expeditious completion</td>
</tr>
<tr>
<td></td>
<td>Comprehensibility</td>
</tr>
<tr>
<td><strong>Process excellence</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>Professional competence</td>
</tr>
<tr>
<td></td>
<td>Listen and support</td>
</tr>
<tr>
<td></td>
<td>Responsibility for the solution</td>
</tr>
<tr>
<td><strong>Quality of claims handling</strong></td>
<td>Professional competence</td>
</tr>
<tr>
<td></td>
<td>Fast processing</td>
</tr>
<tr>
<td><strong>Seamless process</strong></td>
<td>Reliable communication</td>
</tr>
<tr>
<td></td>
<td>Listening and thinking along</td>
</tr>
<tr>
<td><strong>Customer contact</strong></td>
<td></td>
</tr>
<tr>
<td><strong>High performance</strong></td>
<td>Technical expertise</td>
</tr>
<tr>
<td><strong>Effective processes</strong></td>
<td>Expetitious processing</td>
</tr>
<tr>
<td><strong>Individual support</strong></td>
<td>Active help</td>
</tr>
<tr>
<td></td>
<td>Understanding for the individual case</td>
</tr>
</tbody>
</table>

Profitable growth in commercial insurance

1) Strategy& on basis of “KUBUS Privatkundenstudie”
Your Strategy& contacts in EMEA

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Profitable growth in commercial insurance
Strategy&
Thank you