SwissLife

# 2011 operating result

Occupational provisions Swiss Life Switzerland

# Editorial

Dear Reader

A sociopolitical highlight in 2011 was the publication of the Federal Council's report on the future of occupational provisions. With this report, the Federal Council is discharging its obligation, enshrined in law since the 1st BVG revision, to review the basic framework for occupational provision on a regular basis. The report identifies a number of actions points and proposes solutions which will be discussed over the coming months and perhaps put to a referendum.

The debates surrounding the report on the future of occupational provisions come at a time when full insurance is enjoying a revival. Even if, as a result of shortfalls in the existing pension solution, by no means all the employee benefit units interested in doing so will be able to change to a full insurance contract, the growth in premium income is a clear sign. Despite lower risk and cost premiums, total premiums for group insurance grew by over 6 % (incl. growth from the takeover of Swiss National Life Ltd's group life business with effect from 1 January 2011).

Insurance benefits paid out last year amounted to CHF 6.4 billion, close to the levels for 2009. Retirement, disability, death and vested benefits remained at the prior-year level.

Administrative costs were again cut by 3 % in 2011 thanks to measures introduced to enhance efficiency.

Net return on book values in 2011 was an impressive 3.52 %, a significant improvement on the 3.18 % of the previous year and an excellent result in view of the persistent low interest rate environment.

The distribution ratio stood at 92 % in 2011, again clearly surpassing the legally stipulated value of 90 % («minimum distribution ratio»). Our good business result enabled us to continue to provide high benefits to our customers and to pursue a cautious reserve policy.

CHF 225 million was allocated to the bonus reserve. This amount slightly exceeded the level of distributions and enables Swiss Life to keep on providing its customers with high bonuses.

Our growth, the further improvements in costs and the sustained good investment result confirm to us that we are on the right track with our products, benefits and guarantees and that, as a full-range provider, we offer solutions which meet the needs of our customers.

Hans-Jakob Stahel
Head of Corporate Clients business area

# At a glance – Operating result, group life Switzerland

In 2011 the occupational provisions business area of Swiss National Life Ltd was transferred to Swiss Life Ltd with effect from 1 January 2011. The data for 2011 includes this portfolio. The data for 2010 does not, unless otherwise indicated.

| Income | 2011 | 2010 |
|---|---|---|
| **Premium income** | **6 450** | **6 076** |
| Savings premiums | 5 519 | 5 128 |
| Risk premiums | 701 | 719 |
| Cost premiums | 230 | 229 |
| **Investment income, net** | **1 751** | **1 480** |
| Direct investment income | 1 929 | 1 858 |
| Result from disposals | 295 | -38 |
| Currency result | -301 | -236 |
| Balance from write-ups and write-downs | -73 | -15 |
| Interest expense | 0 | 0 |
| Asset management costs | -99 | -89 |
| **Other income** | **27** | **23** |
| **Reinsurance result** | **-5** | **-2** |
| **Total income** | **8 223** | **7 577** |

| Expenses | 2011 | 2010 |
|---|---|---|
| **Insurance benefits** | **6 371** | **5 213** |
| Benefits as a result of old age, death and disability | 1 870 | 1 858 |
| Vested benefits | 2 121 | 2 123 |
| Surrender values | 2 349 | 1 232 |
| Benefit processing expenses | 31* | – |
| **Change in insurance reserves** | **1 128** | **1 682** |
| Retirement savings | 861 | 742 |
| Mathematical reserves for pensions | 473 | 498 |
| Vested benefit policies | 94 | 83 |
| Other technical reserves | -300 | 359 |
| **Costs for acquisitions and administration, gross** | **248** | **287*** |
| **Other expenses** | **37** | **41** |
| **Allocation of excess return to individual contracts** | **0** | **0** |
| **Bonuses allocated to bonus reserve** | **225** | **189** |
| **Operating result** | **214** | **165** |
| **Total expenses** | **8 223** | **7 577** |

All figures in CHF million

*Introduced in the 2011 financial year (previously reported under costs for acquisitions and administration, gross)

## Accounting principles

The group life operating result comprises the company's occupational benefits business in Switzerland. The legal basis for the BVG operating result includes the BVG (Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans), the VAG (Insurance Supervisory Law) and the AVO (Ordinance on the Supervision of Private Insurance Institutions).

The main income figures presented in the operating result are periodic premiums, single premiums and investment income. The insurance benefits consist primarily of benefits for retirement, disability and death, as well as lump-sum benefits resulting from vesting and surrenders.

The material presented below is based on the statutory financial statements. The statutory financial statements for Switzerland describe the Swiss group life and individual life operations from an actuarial perspective. Based on these statements, the Federal Financial Market Supervisory Authority FINMA can check compliance with solvency and other regulations. The statutory financial statements form the basis for allocation of bonuses to policyholders, dividend policy and reporting to the supervisory authorities.

The statutory financial statements are not to be confused with the consolidated financial statements of the Swiss Life Group, which describe the business activities of the whole Group from a shareholder's point of view. They are produced in accordance with consistent rules conforming to IFRS (International Financial Reporting Standards) requirements. The results of the foreign subsidiaries are also consolidated in the annual financial statements. It is not possible to make a direct comparison with the operating result for Switzerland.

## Proof of adherence to statutory minimum distribution ratio

The occupational pensions business can be divided into the three processes of savings, risk and costs. The income is first used to cover the expenses allotted to each process. The remaining income is then used to strengthen the reserves, to ensure that promised benefits will always be paid and to build up the bonus reserve.

| Process | Income | Associated services |
|---|---|---|
| Savings process | Net investment income | Interest on retirement savings and mathematical reserves for current pensions, conversion of retirement savings into retirement pensions |
| Risk process | Risk premium | Payment of disability and survivors' benefits, formation of mathematical reserves for new pensions |
| Cost process | Cost premium | Services for the administration of occupational benefit and insurance solutions and for client advisory services |

## Group business subject to statutory minimum distribution ratio

The bulk of the group business is subject to the statutory minimum distribution ratio. The legal provisions on the statutory minimum distribution ratio require that at least 90 % of the income is used for the benefit of the policyholders. This ensures that they participate appropriately in any profit the insurance company makes.

| | 2011 | 2010 |
|---|---|---|
| **Sum of income components** | **2 227** | **2 041** |
| Savings process | 1 464 | 1 279 |
| Risk process | 553 | 552 |
| Cost process | 210 | 210 |
| **Sum of expenses** | **1 603** | **1 574** |
| Savings process | 1 023 | 952 |
| Risk process | 351 | 382 |
| Cost process | 229 | 240 |
| **Gross result** | **624** | **467** |
| **Change in technical reserves** | **298** | **240** |
| Longevity risk | 330 | 21 |
| Insufficient funding upon conversion into pension | 130 | 79 |
| Reported but not settled claims | 36 | -14 |
| Incurred but not reported claims | -36 | 48 |
| Fluctuations in claims | 2 | -1 |
| Fluctuations in value of investments | 0 | 0 |
| Interest rate guarantees | 0 | 0 |
| Rate adjustments and rate restructuring | -164 | 107 |
| **Costs of raising additional borrowed capital** | **0** | **0** |
| **Allocation to bonus reserve** | **148** | **82** |
| **Operating result** | **178** | **145** |
| **Distribution ratio** | **92.0 %** | **92.9 %** |

All figures in CHF million

In 2011, Swiss Life used a total of CHF 2 049 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution ratio of 92.0 %, the minimum legal requirements have been met.

## Group business not subject to statutory minimum distribution ratio

Contracts with a special arrangement for participation in surplus are not subject to the statutory minimum distribution ratio either in part or in full. This includes contracts with their own profit and loss accounts, where participation in any surplus (bonus) is determined by the risk experience of the individual contract.

| | 2011 | 2010 |
|---|---|---|
| **Sum of income components** | **455** | **387** |
| Savings process | 287 | 201 |
| Risk process | 148 | 167 |
| Cost process | 20 | 19 |
| **Sum of expenses** | **271** | **236** |
| Savings process | 184 | 140 |
| Risk process | 65 | 74 |
| Cost process | 22 | 22 |
| **Gross result** | **184** | **151** |
| **Change in technical reserves** | **71** | **24** |
| Longevity risk | 108 | 1 |
| Insufficient funding upon conversion into pension | 4 | 14 |
| Reported but not settled claims | 4 | 0 |
| Incurred but not reported claims | 4 | 6 |
| Fluctuations in claims | 2 | 2 |
| Fluctuations in value of investments | 0 | 0 |
| Interest rate guarantees | 0 | 0 |
| Rate adjustments and rate restructuring | -51 | 1 |
| **Cost of raising additional borrowed capital** | **0** | **0** |
| **Allocation to bonus reserve** | **77** | **107** |
| **Operating result** | **36** | **20** |
| **Distribution ratio** | **92.0 %** | **94.9 %** |

All figures in CHF million

In 2011, Swiss Life used a total of CHF 419 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

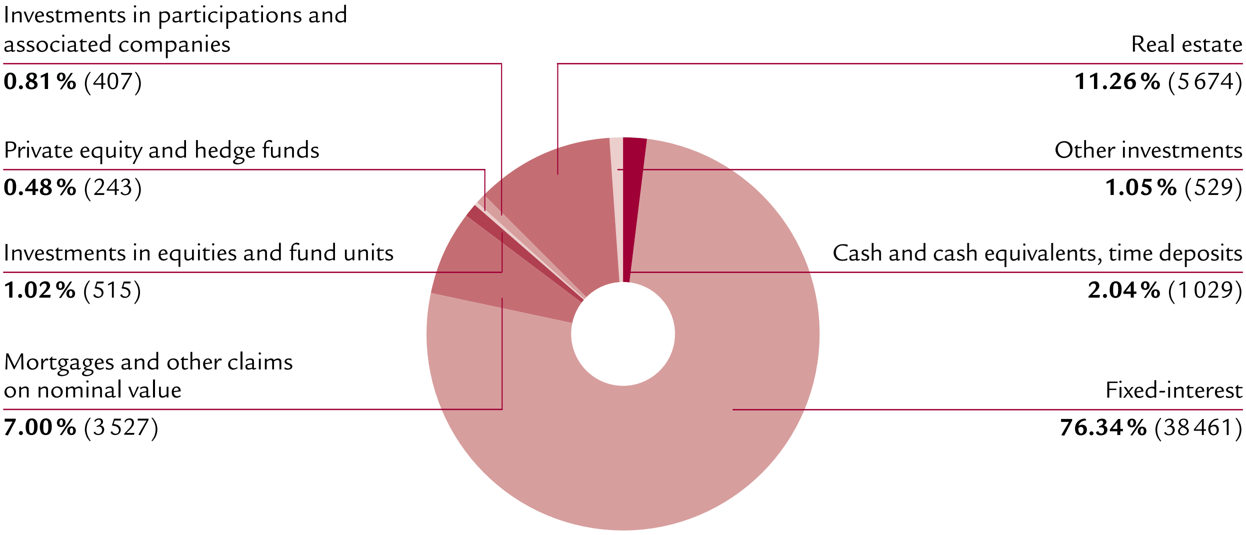
## Summary

| | *MDR | **NMDR | Total |
|---|---|---|---|
| **Gross income** | **2 227** | **455** | **2 682** |
| **Benefits in favour of the insured** | | | |
| Sum of expenses | 1 603 | 271 | 1 874 |
| Change in technical reserves | 298 | 71 | 369 |
| Allocation to bonus reserve | 148 | 77 | 225 |
| **Operating result** | **178** | **36** | **214** |
| **Distribution ratio** | **92.0 %** | **92.0 %** | **92.0 %** |

*MDR: subject to minimum distribution ratio
**NMDR: not subject to minimum distribution ratio

## The investment portfolio in detail

Investments by asset class as at 31 December 2011 (as % of book value).
The total is CHF 50 385 million (all figures in brackets in CHF million).



## Information on the 2011 investment year

2011 was marked by the debt-crisis-induced historically low interest rates, which towards the end of the year were at a record low. Corporate bond performance suffered under the unfavourable economic conditions, although pleasing returns were still generated. Government bonds performed even better than corporate bonds. The equity markets were generally very volatile. The US indices were the best performers, sustaining only slight losses, while the European equity markets lost well over 10 %. Switzerland was somewhere in the middle.

Against this background, Swiss Life continued to pursue its strategy of previous years. In the persistent low interest rate environment, the company invested in high quality, long-term government and corporate bonds. The real estate portfolio was also further expanded. Equity exposure was generally kept low and hedge fund holdings were reduced further. These measures enabled Swiss Life to generate a net return on investment for occupational benefits insurance of 3.52 % (2010: 3.18%), with an investment performance at market values of 8.01 % (2010: 6.59 %).

## Key balance sheet figures

| | | |
|---|---|---|
| **Assets** | | |
| **Investments** | | **50 385** |
| **Liabilities** | | |
| **Insurance reserves, gross** | | **47 624** |
| Retirement savings | | 27 568 |
| Mathematical reserve for current retirement and survivors' benefits | | 9 784 |
| Mathematical reserve for current disability benefits | | 2 389 |
| Vested benefit policies | | 2 773 |
| Provisions for incurred but not settled claims | | 1 317 |
| Cost of living (COL) adjustment fund | | 802 |
| Credited bonuses | | 163 |
| Other insurance reserves | | 2 828 |
| Investment income, gross | | 1 851 |
| Investment income, net | | 1 751 |
| | **Book value** | **Market value** |
| Investments at beginning of accounting year | 49 056 * | 51 350 * |
| Investments at end of accounting year | 50 385 | 55 193 |
| **Valuation reserve** | | |
| Valuation reserve at beginning of accounting year | | 2 294 * |
| Valuation reserve at end of accounting year | | 4 808 |
| Change in valuation reserve | | 2 514 |
| Return on book values, gross/net** | | 3.72 %/3.52 % |
| Market value performance, gross/net*** | | 8.20 %/8.01 % |

*Status following the takeover of the group life portfolio from Swiss National Life Ltd
**Investment income as percentage of average book value
***Investment income and change in valuation reserve as percentage of average market value

All figures in CHF million

## Information on Swiss Life's investment policy

Swiss Life manages investments in such a way that the economic risk capital is efficiently used in line with its risk appetite. The company's asset and liability management (ALM) is applied for this purpose. This includes a process by which the results of risk assessments are used as a basis for investment decisions. The aim is to be in a position to pay benefits whenever they fall due and always to have sufficient equity to absorb fluctuations in the value of assets and liabilities. Clearly defined criteria on security, yield and liquidity are taken into account when policyholder assets, the company's free reserves and shareholders' equity are invested.

## Bonus reserve

The bonus reserve is a reserve for future bonus distributions to policyholders. It serves to even out fluctuations in the course of business so that policyholder bonuses remain stable. The bonus reserve is used exclusively for the policyholders. It is built up using allocations from the operating result. The distributions to policyholders are taken from this reserve. Money that flows into the bonus reserve must be passed on to the policyholders within five years at the most. No more than two-thirds of the bonus reserve can be distributed to policyholders in any given year.

| **Bonus reserve as at end of 2010** | **520***|
|---|---|
| Allocated to employee benefits institutions | 223 |
| Valuation adjustment | 0 |
| Withdrawn from bonus reserve to cover an operating shortfall | 0 |
| Allocated to bonus reserve from operating result | 225 |
| **Balance as at end of 2011** | **522** |

All figures in CHF million

*Status following the takeover of the group life portfolio from Swiss National Life Ltd

From the 2011 result, Swiss Life allocated a total of CHF 225 million to the bonus reserve for group life insurance.

## Cost of living (COL) adjustment fund

The cost of living adjustment fund is an insurance reserve used to finance future adjustments of current disability and surviving dependants' pensions to price developments.

The fund is financed by cost of living premiums paid by the active insured persons.

| **Cost of living adjustment fund as at end of 2010** | **776***|
|---|---|
| COL premiums received | 18 |
| Premium interest | 10 |
| Expenditure for COL increases in risk pensions | 2 |
| Withdrawal in favour of operating account | 0 |
| **Balance as at end of 2011** | **802** |

All figures in CHF million

*Status following the takeover of the group life portfolio from Swiss National Life Ltd

## Administrative costs

### Asset management costs

| | |
|---|---|
| Asset management costs* | 99 |
| As percentage of investments at market value | 0.19% |

*in CHF million

The asset management costs comprise all internal costs resulting from investment activities as well as external costs. External costs include, for instance, custodian and other fees. Transaction costs are not included.

### Processing costs

| | |
|---|---|
| Acquisition expenses* | 57 |
| Marketing and advertising expenses* | 4 |
| Other general administrative expenses* | 187 |
| Acquisition and administrative expenses for reinsurance* | 3 |
| Number of insured persons as at 31 December 2011 | 562 320 |
| Administrative costs per head (CHF) | 435 |
| Cost premium per head (CHF) | 408 |

*in CHF million

The administrative costs of CHF 248 million include all the costs for acquisitions and administration, which Swiss Life incurs in managing its group life business. This translates into average administrative costs per insured person of CHF 435. Thanks to the efficiency enhancing measures introduced, Swiss Life was able to reduce the administrative costs on a comparable basis (excl. benefit processing expenses) by 2.7%, from CHF 255 million to CHF 248 million. Swiss Life aims to reduce these costs still further in the future.

## Other key figures

| | |
|---|---|
| Number of group insurance contracts | 38 102 |
| Number of insured persons at end of accounting year | 562 320 |
| Number of active insured persons | 404 812 |
| Number of pension recipients | 73 633 |
| Number of vested benefit policies | 83 875 |
| | |
| Interest rate for retirement savings in mandatory insurance, guaranteed | 2.00% |
| Interest rate for retirement savings in supplementary insurance, guaranteed | 1.50% |
| Interest rate for retirement savings in supplementary insurance, with interest surplus | 2.40% |
| | |
| Conversion rate for women’s supplementary insurance (retirement age 64) | 5.72% |
| Conversion rate for men’s supplementary insurance (retirement age 65) | 5.84% |

SwissLife
The future starts here.

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