Swiss Life

2013 operating result

Occupational provisions
Swiss Life Switzerland

Editorial

Dear Reader

Swiss Life again emphatically proved its financial stability, efficiency and competitiveness in 2013. In an environment of sustained low interest rates and capital returns, Swiss Life achieved an attractive overall interest rate on retirement savings to the benefit of its insured members, based on a balanced and secure investment strategy. In addition, the company again posted a major increase in its technical reserves and very pleasing growth in premium income.

Demand for full-insurance solutions remains as high as ever, which resulted in overall premium income rising by 13%. Savings premiums came to CHF 6.5 billion, a 15% increase compared to 2012, risk and cost premiums remained stable at 1% higher than last year. Contract terminations in 2013 came to CHF 613 million, which was again well below the prior year (CHF 871 million).

Insurance benefits paid out came to CHF 5.6 billion last year, which was more or less on a par with 2012.

Administrative costs continued to fall, by 9.3%, in 2013 due to the consistent implementation of efficiency-enhancing measures. Swiss Life also reduced administrative costs by 4.4% in 2012.

Net return on book values in 2013 was a solid 3.66%. This excellent result was achieved through a targeted and successful investment policy.

Technical reserves were, as in previous years, again increased with an addition of CHF 953 million in 2013, which further consolidated the company's financial stability and ensures the financial sustainability of long-term benefit commitments.

The distribution ratio stood at 92.4% in 2013, clearly surpassing the legally stipulated value of 90%. The result also enabled CHF 317 million to be added to the bonus reserve (following CHF 240 million in 2012). This sum will enable Swiss Life to maintain high bonus distributions to its customers in the future.

In November 2013, the Federal Council released its consultation draft for the 2020 pension reform. This procedure is crucial to the mid to long-term stability of the three-pillar system. The pension reform is being pursued holistically and prioritises its insured members' interests as well as ensuring 1^{st} and 2^{nd} pillar benefit levels. The reform comprises bundles of measures all aligned with each other and designed to enable a comprehensive and forward-looking reform of the 1^{st} and 2^{nd} pillars. Even though all of the draft's provisions have still not been finalised, we support the efforts of the Federal Council and are committed to a fundamental reform.

Extremely encouraging growth, a low number of contract terminations, the ongoing improvements in terms of administrative costs and the stable investment result are strengthening our conviction that we are following the right path with our offering 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
Member of the Executive Board

At a glance – Operating result, group life Switzerland

Income	2013	2012
Premium income	**7 374**	**6 518**
Savings premiums	6 505	5 657
Risk premiums	666	659
Cost premiums	203	202
Investment income, net	**1 999**	**2 402**
Direct investment income	2 005	1 975
Result from disposals	187	719
Currency result	–222	–161
Balance from write-ups and write-downs	135	–30
Interest expense	0	0
Asset management costs	–106	–101
Other income	**31**	**35**
Reinsurance result	**–1**	**3**
Total income	*9 403*	*8 958*

Expenses	2013	2012
Insurance benefits, gross	**5 553**	**5 450**
Benefits as a result of old age, death and disability	2 113	1 938
Vested benefits	2 793	2 608
Surrender values	613	871
Benefit processing expenses	34	33
Change in insurance reserves, gross	**3 086**	**2 786**
Retirement savings	1 991	1 073
Mathematical reserve for current retirement and survivors' benefits	869	546
Mathematical reserve for current disability benefits	–64	–89
Mathematical reserve, vested benefit policies	138	110
Provision for incurred but not settled claims	14	21
Other technical reserves	138	1 125
Costs for acquisitions and administration, gross	**215**	**237**
Other expenses	**35**	**39**
Bonuses allocated to bonus reserve	**317**	**240**
Operating result	**197**	**206**
Total expenses	*9 403*	*8 958*

All figures in CHF million

Breakdown of savings premiums

Breakdown of savings premiums	
Contributions to retirement savings	2 127
Transferred retirement savings (commencement of employment, new affiliations)	3 709
Deposits for acquired old-age and survivors' pensions	40
Deposits for acquired disability pensions	16
Deposits for vested benefit policies	613
Total savings premiums	*6 505*

All figures in CHF million

Accounting principles

The occupational provisions operating result comprises the occupational benefits business in Switzerland. The legal bases include the BVG (Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans), the VAG (Insurance Supervisory Law) and resulting decrees.

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 the 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.

	2013	2012
Sum of income components	**2 387**	**2 718**
Savings process	1 681	2 017
Risk process	517	515
Cost process	189	186
Sum of expenses	**1 146**	**1 398**
Savings process	610	866
Risk process	329	322
Cost process	207	210
Gross result	*1 241*	*1 320*
Accumulation (+) or release (–) of technical reserves	**846**	**1 002**
In the savings process		
Longevity risk	604	675
Insufficient funding upon conversion into pension	170	433
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	70	31
Incurred but not reported claims	1	5
Fluctuations in claims	1	–58
Rate adjustments and rate restructuring	0	–84
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**214**	**137**
Operating result	*181*	*181*
Distribution ratio	*92.4%*	*93.3%*

All figures in CHF million

*Including strengthening of mathematical reserve for disability and survivors' benefits

In 2013, Swiss Life used a total of CHF 2 206 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution ratio of 92.4%, 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. 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.

	2013	2012
Sum of income components	**481**	**545**
Savings process	318	385
Risk process	149	144
Cost process	14	16
Sum of expenses	**255**	**253**
Savings process	163	156
Risk process	76	79
Cost process	16	18
Gross result	*226*	*292*
Accumulation (+) or release (–) of technical reserves	**107**	**164**
In the savings process		
Longevity risk	63	124
Insufficient funding upon conversion into pension	34	62
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	5	4
Incurred but not reported claims	1	2
Fluctuations in claims	4	–4
Rate adjustments and rate restructuring	0	–24
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**103**	**103**
Operating result	*16*	*25*
Distribution ratio	*96.6 %*	*95.4 %*

All figures in CHF million

*Including strengthening of mathematical reserve for disability and survivors' benefits

In 2013, Swiss Life used a total of CHF 465 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

Summary

	*MDR	**NMDR	Total
Gross income	*2 387*	*481*	*2 868*
Benefits in favour of the insured			
Sum of expenses	1 146	255	1 401
Change in technical reserves	846	107	953
Allocation to bonus reserve	214	103	317
Operating result	*181*	*16*	*197*
Distribution ratio	*92.4 %*	*96.6 %*	*93.1 %*
Share of total income	*7.6 %*	*3.4 %*	*6.9 %*

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

Insurance reserves

Insurance reserves, gross		Mandatory	Supplementary
Retirement savings	30 632	15 937	14 695
Additional reserve for future pension conversions	1 268	840	428
Mathematical reserve for current retirement and survivors' benefits	9 426	4 168	5 258
Mathematical reserve for current disability benefits	2 129	1 319	810
Strengthening of mathematical reserve for current pensions	2 386	1 095	1 291
Mathematical reserve, vested benefit policies	3 022		
Provision for incurred but not settled claims	821		
Cost of living (COL) adjustment fund	842		
Credited bonuses	156		
Other insurance reserves	2 807		
Total insurance reserves	*53 489*		

All figures in CHF million

In view of the persistent low interest rate environment, Swiss Life has taken further steps to guarantee its obligations to beneficiaries. By building up additional insurance reserves it has been able to further reduce its future interest burden. This will guarantee that Swiss Life can continue to fulfil its customer promise. In addition, Swiss Life has built up a generous bonus reserve, which will guarantee beneficiaries a high level of profit participation in the future.

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 2012	**522**
Allocated to employee benefits institutions	254
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	317
Balance as at end of 2013	*585*

All figures in CHF million

From the 2013 result, Swiss Life allocated a total of CHF 317 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 2012	**828**
COL premiums received	11
Premium interest	4
Expenditure for COL increases in risk pensions	1
Withdrawal in favour of operating account	0
Balance as at end of 2013	*842*

All figures in CHF million

Other key figures

Number of group insurance contracts	40 118
Number of insured persons at end of accounting year	575 259
Number of active insured persons	414 973
Number of pension recipients	74 606
Number of vested benefit policies	85 680
Interest rate for retirement savings in mandatory insurance, guaranteed	1.50 %
Interest rate for retirement savings in mandatory insurance, with interest surplus	1.70 %
Interest rate for retirement savings in supplementary insurance, guaranteed	1.25 %
Interest rate for retirement savings in supplementary insurance, with interest surplus	2.20 %
Conversion rate for women's supplementary insurance (retirement age 64)	5.72%
Conversion rate for men's supplementary insurance (retirement age 65)	5.84%

Information on the 2013 investment year

In the US the Federal Reserve began preparing investors in the spring for the end of its purchasing programme of bonds with longer maturities. In December 2013, the Fed finally took a step in that direction. This caused long-term interest rates to trend upwards in most places over the year. Continued progress by the European crisis-hit countries in managing their debt caused credit spreads to narrow markedly relative to returns on German government bonds.

The equity markets have been trending upwards since 2009. As in the prior year the main stock exchange indexes in the developed world posted double-digit growth rates in 2013. Improved economic data from Japan and the western industrialised world made a key contribution to this growth. The stock exchanges in the emerging regions didn't manage to keep pace with their industrialised counterparts. This was due to capital outflows resulting from the prospect of a change in monetary policy in the US.

The Swiss National Bank maintained its floor of 1.20 against the euro throughout the year. The most important event on the currency markets was the significant devaluation of the Japanese yen against the other leading currencies. Meanwhile the pound sterling had a rollercoaster year as initial scepticism about a recovery in the UK evaporated following the mid-year release of strong economic data.

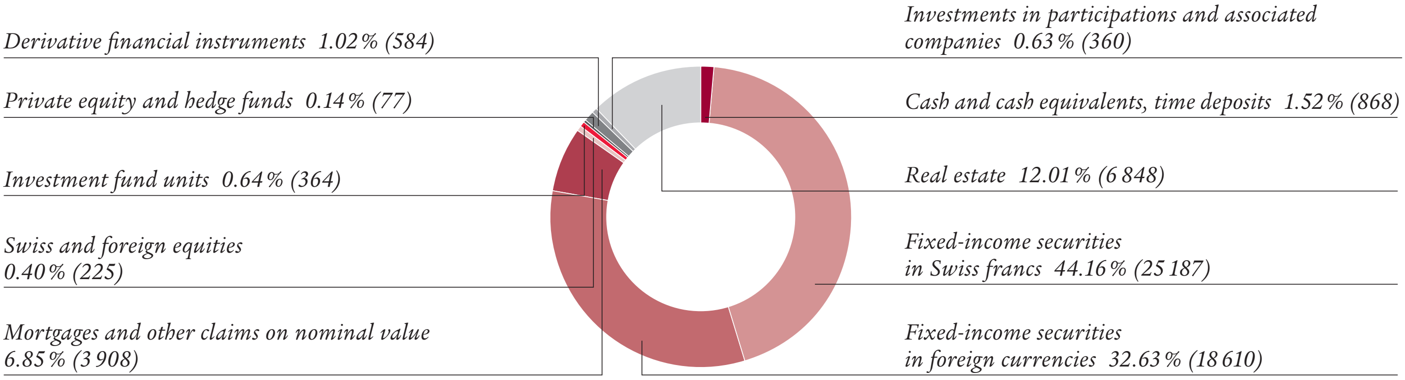
Against this background, Swiss Life continued to pursue its strategy of previous years. In a persistently low interest rate environment, the company invested in high quality corporate bonds. Rising rates had a dampening effect on government bonds, whereas the impact on corporate bonds was partially offset by further reductions in credit spreads. The real estate portfolio was also further expanded and equity exposure was increased slightly, albeit from a low level. These measures enabled Swiss Life to generate a net return on investment for occupational benefits insurance of 3.66 % (2012: 4.67 %). Investment performance at market values was –2.38 % (2012: 7.48 %).

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, and the investment strategy is based on these risk assessment findings. 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.

The investment portfolio in detail

Investments by asset class as at 31 December 2013 (as % of book value).
The total is CHF 57 031 million (all figures in brackets in CHF million).



Investments

Investments	Book value	Market value
Investments at beginning of accounting year*	52 447	59 128
Investments at end of accounting year*	56 655	59 920
Valuation reserve		
Valuation reserve at beginning of accounting year		6 681
Valuation reserve at end of accounting year		3 265
Change in valuation reserve		–3 416
Yield and performance	**gross**	**net**
Investment income	2 105	1 999
Return on book values**	3.86%	3.66%
Market value performance***	–2.20%	–2.38%

All figures in CHF million

* Total investment income minus obligations under derivative financial instruments
** Investment income as percentage of average book value
*** Investment income and change in valuation reserve as percentage of average market value

Asset management costs

Asset management costs	
Asset management costs*	106
As percentage of investments at market value	0.18%

*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.

Cost premiums and operating expense

	Operating expense (in CHF million)	per capita (in CHF)	Cost premiums (in CHF million)	per capita (in CHF)
Active insured persons	204	492	195	470
Vested benefit policies	7	79	5	62
Other	4		3	
Subtotal	*215*		*203*	
Pensioners	34*	460		
Total	*249*			

*Operating expense for pensioners is borne by the savings and risk process

Breakdown of expense by cost unit is as follows:

		to brokers and intermediaries	to own sales force
Acquisition expenses including commission to brokers, agents, sales force	68	40*	28
Benefit processing expenses	34		
Marketing and advertising expenses	4		
Other general administrative expenses	143		
Reinsurers’ share in operating expense	0		
Total net operating expense	*249*		

All figures in CHF million

* incl. commissions for distribution agreements

The administrative costs of CHF 215 million include all the costs for acquisitions and administration, which Swiss Life incurs in managing its group life business. Thanks to the efficiency enhancing measures introduced, Swiss Life was able to reduce administrative costs by 9.3%, from CHF 237 million to CHF 215 million. Swiss Life aims to reduce these costs still further in the future.

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The future starts here.

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