Occupational provisions
Swiss Life Switzerland

SwissLife

2017 operating result

Index

Swiss Life
2017 operating result in brief

1.95%
Investment yield

CHF
8 956
m.
Total return

CHF
137
m.
Allocation to bonus reserve

43 326
Contracts

94.3%
Payout ratio

462 582
Active insured persons

CHF
126
m.
Operating result

Editorial

Swiss Life can look back on a good financial year and is on track for healthy growth in full insurance and with semi-autonomous solutions. Nevertheless, there are many challenges facing occupational benefits insurance. Hans-Jakob Stahel, Head of Corporate Clients and member of the Swiss Life Switzerland Executive Board, explains in an interview what these are and what answers Swiss Life has for them.

Hans-Jakob Stahel, are you satisfied with the result for 2017?
Yes. We're on track for good and healthy growth in group business despite the fact that the market environment was once again challenging over the past year. We used a total of CHF 1 754 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. Furthermore, the result enabled CHF 137 million to be allocated to the bonus reserve, CHF 6 million more than in the previous year. Premium income fell to CHF 7 629 million due to our selective underwriting policy, nonetheless we did achieve an increase in the number of contracts. In this connection, I was particularly pleased that we kept administrative costs stable at CHF 202 million. This shows that our systematically implemented efficiency enhancement measures are proving effective.

But there are also many challenges for pillar 2. What currently concerns you the most?
We continue to face a difficult and challenging market environment with low interest rates and low investment income. Furthermore, the excessive capital requirements prescribed by the Swiss Solvency Test entail a competitive disadvantage for Swiss insurers. These regulatory conditions are additionally impeding life insurers in producing attractive guaranteed benefits and risk hedging for our clients by forcing us to uphold more security-oriented investment strategies than those applied, for instance, by autonomous and semi-autonomous employee benefits institutions.

What does that mean exactly?
The excessive capital requirements oblige us to exercise restraint in new business with a view to upholding the guarantees made in existing business over the long term. Last year we had to reject around 15 percent of the requested offers for full insurance.

> *“We are maintaining our full-range provider strategy and developing it further while taking account of the needs of our clients.”*

Does this mean that you will continue to offer your clients full insurance?
Yes, that's correct. We are maintaining our full-range provider strategy and developing it further while taking account of the needs of our clients. As a market leader, Swiss Life will continue to vouch for the urgently needed guarantees for Swiss SMEs in pillar 2. Offering this comprehensive range remains very important, especially for companies that themselves have restricted risk capacity or tolerance. We will therefore continue to offer our clients this option in the future and support them in finding a solution.

Hans-Jakob Stahel
Head of Corporate Clients business area
Member of the Executive Board

The pension reform was rejected last autumn in an initial step. Since then the Federal Council has set out the key parameters for stabilising and enhancing the flexibility of AHV. At the same time the social partners have been instructed to seek solutions for occupational benefits insurance. What do you have to say about this?
On the one hand we welcome the fact that the Federal Council is swiftly taking up the reform again. We also support the overriding objectives, namely the upholding of the pension level and the medium-term financial stabilisation of the pension system. What bothers us, however, is that the reform packages for AHV and occupational pension provision are being dealt with on separate timetables. For example, BVG reform is being put off although everything is at hand. The need for action is particularly urgent in the mandatory component of occupational pension provision in order to prevent a continuation of the non-systematic cross-financing of pensioners by active insured members.

Let's change the topic. Your full-range provider strategy has since last autumn also included the strategic partnership with bexio. Why has Swiss Life entered this partnership?
For Swiss Life this partnership represents another important step enabling us to continue offering our clients innovative products and services in the future. We are convinced that particularly in the micro enterprise segment such platforms are set to gain ground strongly and we wish to ensure direct client access for such solutions in the future. SMEs will benefit from the seamless integration of their pension solutions from Swiss Life to the payroll accounting of bexio. This offering can be supplemented on a modular basis with accident insurance or short-term disability benefit. SMEs are thus spared the enormous administrative effort for the management of their occupational provisions and personal insurance. Never before has the administration of personal insurance been as easy as with our offering.

What are the next steps planned here?
Our offering will be going live in the third quarter. We will then systematically carry out the next development steps and are also thinking about further dimensions of automation in order to relieve SMEs administratively.

Let's venture a glance into the future. What trends do you see for pillar 2?
On the one hand there is undoubtedly a trend towards further automation and digitalisation. I'm thinking here of things such as automatic notifications and the exchange of data between clients and insurers. Alongside this we can observe a clear trend towards more individuality, in occupational pension provision as well. This is reflected not least by the example of our Swiss Life Business Premium management pension plan that is enjoying growing popularity.

At a glance – Operating result, group life Switzerland

Income	2017	2016
Premium income	**7 629**	**8 176**
Savings premiums	6 736	7 265
Risk premiums	678	695
Cost premiums	215	216
Investment income, net	**1 322**	**1 690**
Direct investment income	2 041	2 068
Result from disposals	–148	194
Currency result	–344	–331
Balance from write-ups and write-downs	–54	–68
Interest expense	–7	–13
Asset management costs	–166	–160
Other income	**6**	**7**
Reinsurance result	**–1**	**–1**
Total income	*8 956*	*9 872*

Expenses	2017	2016
Insurance benefits, gross	**6 964**	**6 649**
Benefits as a result of old age, death and disability	2 315	2 260
Vested benefits	3 596	3 419
Surrender values	1 017	935
Benefit processing expenses	36	35
Change in insurance reserves, gross	**1 513**	**2 709**
Retirement savings	533	1 231
Mathematical reserve for current retirement and survivors' benefits	910	841
Mathematical reserve for current disability benefits	–82	3
Mathematical reserve, vested benefit policies	–61	164
Provision for incurred but not settled claims	–52	–10
Other technical reserves	265	480
Costs for acquisitions and administration, gross	**202**	**202**
Other expenses	**14**	**20**
Bonuses allocated to bonus reserve	**137**	**131**
Operating result	**126**	**161**
Total expenses	*8 956*	*9 872*

All figures in CHF million

Breakdown of savings premiums

Breakdown of savings premiums	2017	2016
Contributions to retirement savings	2 432	2 404
Transferred retirement savings (individually transferred)	3 160	3 020
Transferred retirement savings (new affiliation)	450	946
Deposits for acquired retirement and survivors' benefits	24	34
Deposits for acquired disability pensions	15	30
Deposits for vested benefit policies	655	831
Total savings premiums	*6 736*	*7 265*

All figures in CHF million

Breakdown of insurance benefits

Breakdown of insurance benefits	2017	2016
Lump-sum benefits as a result of old age, death and disability	1 028	1 014
Pension benefits as a result of old age, death and disability	1 287	1 246
Total benefits as a result of old age, death and disability	*2 315*	*2 260*

All figures in CHF million

Breakdown of insurance benefits by risk	2017	2017
Benefits as a result of old age	1 701	73%
Benefits as a result of death	320	14%
Benefits as a result of disability	294	13%
Total benefits as a result of old age, death and disability	*2 315*	*100%*

All figures in CHF million

Accounting principles

The occupational provisions operating result comprises group life 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 paid out as a result of old age, disability and death or lump-sum benefits resulting from vesting and surrenders.

The material presented 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 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 – also known as the legal quote – 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.

	2017	2016
Sum of income components	**1 860**	**2 188**
Savings process	1 112	1 425
Risk process	549	562
Cost process	199	201
Sum of expenses	**1 630**	**1 642**
Savings process	1 132	1 113
Risk process	304	330
Cost process	194	199
Gross result	*230*	*546*
Accumulation (+) or release (–) of technical reserves	**76**	**372**
In the savings process		
Longevity risk	–69	194
Insufficient funding upon conversion into pension	170	207
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	–15	–28
Incurred but not reported claims	1	2
Fluctuations in claims	–11	–3
Rate adjustments and rate restructuring	0	0
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**48**	**39**
Operating result	*106*	*135*
Distribution ratio	*94.3%*	*93.8%*

All figures in CHF million

**Including strengthening of mathematical reserve for disability and surviving dependants' pensions*

In 2017, Swiss Life used a total of CHF 1 754 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution ratio of 94.3%, the minimum legal requirements have been met.

Group business not subject to statutory minimum distribution ratio

Contracts with a special arrangement for surplus participation 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.

	2017	2016
Sum of income components	**355**	**413**
Savings process	210	265
Risk process	129	133
Cost process	16	15
Sum of expenses	**243**	**237**
Savings process	163	156
Risk process	64	66
Cost process	16	15
Gross result	*112*	*176*
Accumulation (+) or release (–) of technical reserves	**3**	**58**
In the savings process		
Longevity risk	–20	28
Insufficient funding upon conversion into pension	26	31
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	1	–1
Incurred but not reported claims	0	0
Fluctuations in claims	–4	0
Rate adjustments and rate restructuring	0	0
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**89**	**92**
Operating result	*20*	*26*
Distribution ratio	*94.4%*	*93.8%*

All figures in CHF million

**Including strengthening of mathematical reserve for disability and surviving dependants' pensions*

In 2017, Swiss Life used a total of CHF 335 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

Summary

	*MDR	**NMDR	Total
Gross income	*1 860*	*355*	*2 215*
Benefits in favour of the insured			
Sum of expenses	1 630	243	1 873
Change in technical reserves	76	3	79
Allocation to bonus reserve	48	89	137
Operating result	*106*	*20*	*126*
Distribution ratio	*94.3%*	*94.4%*	*94.3%*
Share of total income	*5.7%*	*5.6%*	*5.7%*

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

Insurance reserves

Insurance reserves, gross		Mandatory	Supplementary
Retirement savings	36 943	18 676	18 267
Additional reserve for future pension conversions	2 174	1 552	622
Mathematical reserve for current retirement and survivors' benefits	12 778	5 894	6 884
Mathematical reserve for current disability benefits	2 006	1 202	804
Strengthening of mathematical reserve for current pensions	2 815	1 310	1 505
Mathematical reserve, vested benefit policies	3 682		
Provision for incurred but not settled claims	753		
Cost of living (COL) adjustment fund	883		
Credited bonuses	146		
Other insurance reserves	3 447		
Total insurance reserves	*65 627*		

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 and has valued pension liabilities with a technical interest rate of 1.38% (2016: 1.44%). 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 2016	**369**
Allocated to employee benefits institutions	188
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	137
Balance as at end of 2017	*318*

All figures in CHF million

From the 2017 result, Swiss Life allocated a total of CHF 137 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 2016	**879**
COL premiums received (risk and cost component)	5
Tariff interest	0
Expenditure for COL increases in risk pensions	0
Withdrawal for costs	1
Balance as at end of 2017	*883*

All figures in CHF million

Book values – Liability items

Total insurance reserves	65 627
Bonus reserve	318
Other obligations (including those to policyholders)	1 645
Other liabilities	3 757
Total book value	*71 347*

All figures in CHF million

Other key figures

Number of group insurance contracts	43 326
Number of insured persons at end of accounting year	639 122
Number of active insured persons	462 582
Number of pension recipients	80 430
Number of vested benefit policies	96 110
Interest rate for retirement savings in mandatory insurance, guaranteed	1.00%
Interest rate for retirement savings in supplementary insurance, guaranteed	0.25%
Technical interest rate used to value pension liabilities	1.38%
Conversion rate for women's supplementary insurance (retirement age 64)	5.56%
Conversion rate for men's supplementary insurance (retirement age 65)	5.57%

Information on the 2017 investment year

In one respect, 2017, too, was no exception: The frequently proclaimed interest rate turnaround once again failed to materialise. Returns and interest rate curves were back at the levels of the start of the year in many major currency areas, including Switzerland. The US yield curve flattened as a result of the key interest rate hikes. A further anomaly of the upturn was the almost complete absence of inflation. However, 2017 will likely also go down in history as the year in which the risk of serious deflation could gradually be described as averted.

The equity markets have since April 2009 been experiencing one of the longest booms in their history, driven largely by the abundant liquidity of the central banks. Despite the expected US key interest rate hikes and the announcement of a halving of ECB securities purchases, monetary policy remained expansive in 2017 and supported equity prices. Nevertheless, 2017 was undoubtedly the year in which the synchronous, accelerating and increasingly self-sustaining global upturn was the decisive factor behind the record hunt on the stock markets. Being invested in equities once again paid off this year.

From a Swiss perspective, the outstanding phenomenon of 2017 was undoubtedly the depreciation of the franc – the most significant since 1996. The announcement by the ECB in October of its intention to halve securities purchases in 2018 initially undermined the euro appreciation. However, the franc devaluation trend continued. One dollar cost one franc again in November for the first time since May. The euro closed the year at just under 1.17 francs, thereby approaching the minimum exchange rate that the Swiss National Bank had abandoned on 15 January 2015. The SNB achieved record profits, thanks in particular to the appreciation of the euro.

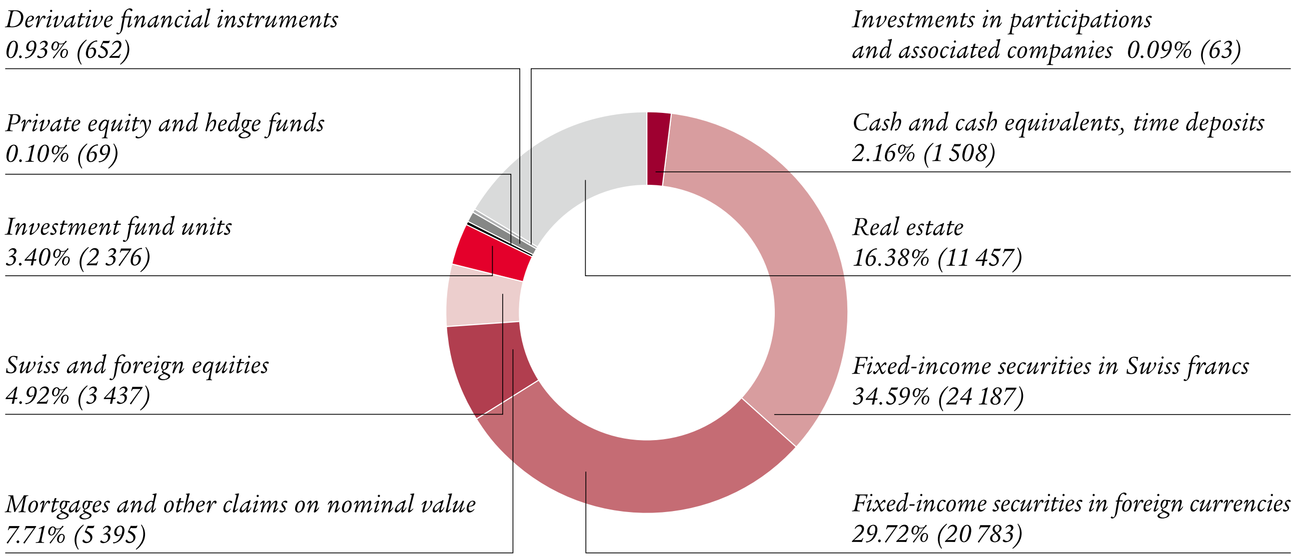
Against this backdrop, Swiss Life continued to pursue its strategy of previous years. In the persistent low interest rate environment, Swiss Life invested in senior secured loans and infrastructure as well as bonds. As in previous years, additional expansions were made to the real estate portfolio. Equity exposure was further increased. These measures enabled Swiss Life to generate a net return on investment for occupational benefits insurance of 1.95% (2016: 2.60%), with an investment performance at market values of 2.34% (2016: 4.30%).

Information on Swiss Life's investment policy

Swiss Life manages investments in such a way that the economic risk capital is 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 always 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 2017 (as a percentage of the book value).
The total is CHF 69 927 million (all figures in brackets in CHF million).



Investments, valuation reserves, return and performance

Investments	Book value	Market value
Investments at beginning of accounting year*	66 905	75 861
Investments at end of accounting year*	68 892	78 330
Percentage of collective investment schemes**		3.07%
Percentage of capital investments that are not cost transparent**		0.29%

All figures in CHF million

**Total investments minus obligations under derivative financial instruments*
***Measured by market value of investments at end of accounting year*

Valuation reserve	2017	2016
Valuation reserve at beginning of accounting year	8 956	7 494
Valuation reserve at end of accounting year	9 438	8 956
Change in valuation reserve	482	1 462

Yield and performance	gross	net
Investment income	1 488	1 322
Return on book values*	2.19%	1.95%
Market value performance**	2.56%	2.34%

All figures in CHF million

**Investment income as percentage of average book value*
***Investment income and change in valuation reserve as percentage of average market value*

Book values – Asset items

Total investments	69 927
Other assets	1 420
Total book value	*71 347*

All figures in CHF million

Asset management costs

Asset management costs as a percentage of investments at market value	
Asset management costs without real estate maintenance**	0.22% (166*)
Cost of upkeep and maintenance of real estate	0.12% (91*)
Asset management costs with real estate maintenance	0.33% (257*)

*All figures in CHF million
**The asset management costs without real estate maintenance comprise all internal costs resulting from investment activities as well as external costs (for instance, custodian and other fees).

Schedule of asset management costs

The gross expenses for management of occupational pension investments are posted by cost category: Administration and management (TER), Transaction and commission (TTC) and Other non-assignable service costs (SC).

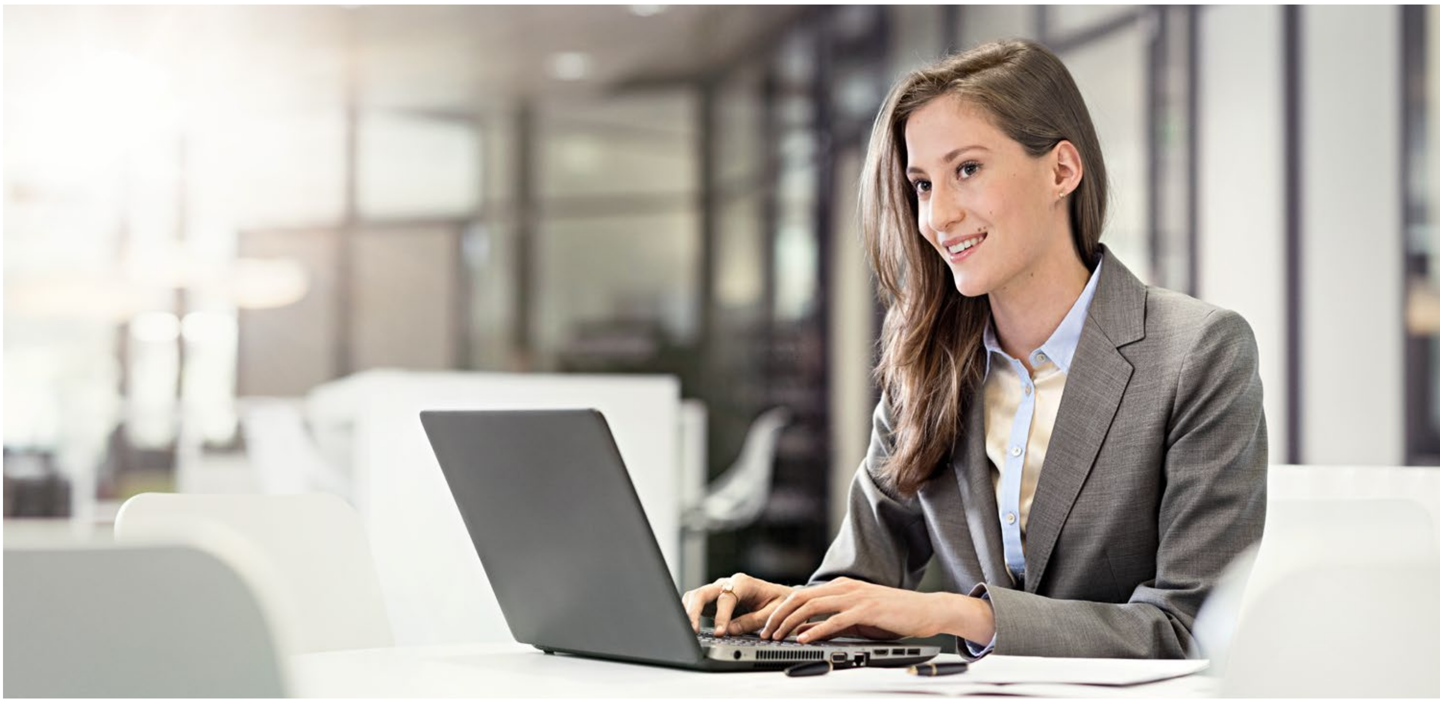
	TER	TTC	SC
Direct investments	228	36	
Single-tier collective investments	12		
Multi-tier collective investments	8		
Investments that are not cost transparent			
Service costs of investments			5
Total before capitalisation	*248*	*36*	*5*
Capitalised costs	0	27	5
Total recognised in income	*248*	*9*	*0*

All figures in CHF million

Summary

	Market value	Total costs
Direct investments	75 700	264
Single-tier collective investments	1 896	12
Multi-tier collective investments	510	8
Investments that are not cost transparent	224	
Service costs of investments		5
Total market value/Total before capitalisation	*78 330*	*289*
Capitalised costs		32
Total recognised in income		*257*

All figures in CHF million



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	197	427	210	455
Vested benefits policies	4	42	4	36
Other	1		1	
Subtotal	*202*		*215*	
Pensioners	36*	442		
Total	*238*			

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

Breakdown of operating expenses by cost unit		to brokers and intermediaries	to own sales force
Acquisition expenses including commissions to brokers, agents, sales force	52	30*	22
Benefit processing expenses	36		
Marketing and advertising expenses	4		
Other general administrative expenses	146		
Reinsurers' share in operating expense	0		
Total net operating expense	*238*		

All figures in CHF million

**Incl. commissions for distribution agreements*

The administrative costs of CHF 202 million include all the costs for acquisitions and administration, which Swiss Life incurs in managing its group life business. Swiss Life aims to reduce these costs in the future.

05.2018

The future starts here.

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