Occupational provisions
Swiss Life Switzerland

SwissLife

2018
operating result

Index

Swiss Life
2018 operating result in brief

2.22%
Investment yield

CHF
9 361
m.
Total return

CHF
245
m.
Allocation to bonus reserve

44 249
Contracts

94.2%
Payout ratio

460 028
Active insured persons

CHF
141
m.
Operating result

Editorial

We have had an intense and eventful year. Swiss Life reconfirmed its commitment to being a full-range provider on the market and can look back on a successful financial year. Hans-Jakob Stahel, Head of Corporate Clients and Member of the Executive Board Switzerland, reviews 2018 and explains this year's focus.

You posted premium income of 7.8 billion Swiss francs in 2018. Are you satisfied by these figures?
Yes, the 2018 financial year was a great success. We achieved consistently high premiums, maintained cost management discipline and attained a respectable investment yield of 2.22%, given the operating environment. In addition, we were able to acquire many new customers in 2018, and have added them to our portfolio as of 2019. This is very pleasing but has also meant extra expenses for consulting, offers and the like: hence the 9% increase in administrative costs. This is an accrual effect that will lead to sustainably lower administrative costs in future.

What were the greatest challenges in 2018?
There wasn't much change over the previous year. Our market environment continues to be difficult, with low interest rates and low return on investment. For us as a life insurance company this means that it remains a challenge to provide our customers with attractive guarantees and risk insurance. And then there are changing customer demands. Customers are increasingly calling for individual, flexible solutions adapted to their particular situation.

Swiss Life continues to be a full-range provider. Why?
As market leader we have determined that not only SMEs but major companies from all sectors as well as associations continue to feel a great need for security in occupational provisions. The strong demand, constant for years now, and the continuing stability of supply in guarantee solutions speak for themselves. At the moment 120 000 companies with around a million insured persons are enjoying the comprehensive guarantees of full insurance. That corresponds to around a quarter of all employees in Switzerland, or around half of those employed by SMEs. Such all-round protection is thus of central economic significance and is a key pillar of our provisions system.

“Customers are increasingly calling for individual, flexible solutions adapted to their particular situation.”

Is it possible to make a profit from this business at all these days?
Yes. Swiss Life has always designed its occupational provisions in a forward-looking manner. In this spirit of long-term orientation, we have accumulated sufficient reserves to be able to meet our promises in the area of provisions over the long term and sustainably. We are thus ideally equipped for the challenges to come. That does not mean, however, that the excessively high BVG conversion rate is not requiring a persistent cross-financing of retired persons by those in active employment, something we need to eliminate, or at least quickly and significantly reduce.

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

How is Swiss Life doing in the area of semi-autonomous solutions?
We continue to stand by our full range and let our customers themselves determine which solution is best for their occupational provisions. Semi-autonomous solutions without guarantees in the savings component play a central role in this regard. Our advisors as well as our distribution partners are thus able to offer customers the entire spectrum of Swiss Life solutions – from full insurance to an individual 1e solution.

How is Swiss Life further developing its full-range provisions?
Swiss Life is the only provider that offers its clients a comprehensive product and consulting range for occupational provisions under one brand. We will be further developing individual offerings within this full range. Thus, for example, we are introducing new investment categories for the 1e solution, or improving our information provision and consulting for insured employees.

What is this year's focus for occupational provisions?
Last year showed that the market can adapt to the departure of a major competitor from the full insurance business without a hitch. Nevertheless, a swift adjustment of current conditions to the economic and demographic realities is necessary. First of all, the excessively high BVG conversion rate needs to come down, an important step towards generational fairness and a brake on the annual reallocation of some seven billion francs from the gainfully employed to pensioners.

That brings us to politics: what is Swiss Life's position on current developments in the reform of retirement provisions?
Despite a separate reform of the first and second pillars, occupational provisions should be reformed in parallel with the AHV. Reforming occupational provisions is every bit as urgently necessary as taking care of the AHV and must not be put on the back burner. In fact, there is an acute need for action in the mandatory portion of occupational provisions in particular, what with the excessively high BVG conversion rate. It would therefore be preferable if the Federal Council were to issue its dispatch on AHV21 without delay following the summer break, while at the same time launching the consultation process on reforming the second pillar.

At a glance – Operating result, group life Switzerland

Income	2018	2017
Gross written premiums	**7 797**	**7 629**
Savings premiums	6 917	6 736
Risk premiums	670	678
Cost premiums	210	215
Net investment result	**1 559**	**1 322**
Gross investment result	1 960	2 041
Result from disposals	215	–148
Currency result	–395	–344
Balance from write-ups and write-downs	–30	–54
Interest expense	–6	–7
Asset management costs	–185	–166
Other income	**7**	**6**
Reinsurance result	**–2**	**–1**
Total income	*9 361*	*8 956*

Expenses	2018	2017
Insurance benefits	**7 220**	**6 964**
Benefits as a result of old age, death and disability	2 398	2 315
Vested benefits	3 645	3 596
Surrender values	1 137	1 017
Benefit processing expenses	40	36
Change in insurance reserves	**1 520**	**1 513**
Retirement savings	495	533
Provision for future conversion rate losses	42	195
Mathematical reserve for current retirement and survivors' benefits	821	910
Mathematical reserve for current disability benefits	–30	–82
Mathematical reserve, vested benefit policies	–22	–61
Mathematical reserve other cover	222	151
Strengthening of mathematical reserve for pension reserves and vested benefit policies	241	–71
Provision for incurred but not settled claims	1	–52
Value fluctuation and interest rate guarantee reserves	0	0
Cost of living reserves	–249	4
Other technical reserves	–1	–14
Costs for acquisitions and administration	**221**	**202**
Change in reserves for unearned premiums	**0**	**0**
Other expenses	**14**	**14**
Bonuses allocated to bonus reserve	**245**	**137**
Operating result	**141**	**126**
Total expenses	*9 361*	*8 956*

All figures in CHF million

Breakdown of savings premiums

Breakdown of savings premiums	2018	2017
Retirement credits	2 442	2 432
Individual deposits due to commencing employment, purchase, WEF or divorce	3 279	3 160
Transferred retirement savings on transfers of contract	477	450
Deposits for retirement and survivors' benefits	5	24
Deposits for disability pensions and disabled person’s children’s benefits	23	15
Deposits for vested benefit policies	691	655
Total savings premiums	*6 917*	*6 736*

All figures in CHF million

Breakdown of insurance benefits

Breakdown of insurance benefits	**2018**	**2017**
Benefits as a result of old age	1 774	1 701
Annuity benefits	894	854
Lump sums	880	847
Ratio annuity benefits	50%	50%
Ratio lump sums	50%	50%
Benefits as a result of death and disability	624	614
Annuity benefits	432	433
Lump sums	192	181
Total benefits as a result of old age, death and disability	*2 398*	*2 315*

All figures in CHF million

Breakdown of investment income

Breakdown of investment income	**2018**	**2017**
Liquid assets	–3	–2
Bonds	1 217	1 309
Properties	397	385
Mortgages	98	102
Other investments	251	246
Total gross investment result	*1 960*	*2 040*

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.

	2018	2017
Sum of income components	**2 112**	**1 860**
Savings process	1 353	1 112
Risk process	562	549
Cost process	197	199
Sum of expenses	**1 753**	**1 630**
Savings process	1 141	1 132
Risk process	398	304
Cost process	214	194
Gross result	*359*	*230*
Accumulation (+) or release (–) of technical reserves	**81**	**76**
In the savings process	**150**	**101**
Longevity risk	260	–69
Insufficient funding upon conversion into pension	26	170
Interest rate guarantees	0	0
Release of cost of living reserves for strengthening	–136	0
Fluctuations in value of investments	0	0
In the risk process	**22**	**–25**
Reported but not settled claims*	17	–15
Incurred but not reported claims	2	1
Fluctuations in claims	3	–11
Rate adjustments and rate restructuring	0	0
Release of cost of living reserves for strengthening	0	0
Accumulation of additional cost of living reserves	0	0
Release of cost of living reserves for bonus reserve	**–91**	**0**
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**156**	**48**
Operating result	*122*	*106*
Distribution ratio	*94.2%*	*94.3%*

All figures in CHF million

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

In 2018, Swiss Life used a total of CHF 1 990 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution ratio of 94.2%, 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.

	2018	2017
Sum of income components	**327**	**355**
Savings process	206	210
Risk process	108	129
Cost process	13	16
Sum of expenses	**194**	**243**
Savings process	135	163
Risk process	45	64
Cost process	14	16
Gross result	*133*	*112*
Accumulation (+) or release (–) of technical reserves	**25**	**3**
In the savings process	**36**	**6**
Longevity risk	35	–20
Insufficient funding upon conversion into pension	15	26
Interest rate guarantees	0	0
Release of cost of living reserves for strengthening	–14	0
Fluctuations in value of investments	0	0
In the risk process	**–2**	**–3**
Reported but not settled claims*	2	1
Incurred but not reported claims	0	0
Fluctuations in claims	–4	–4
Rate adjustments and rate restructuring	0	0
Release of cost of living reserves for strengthening	0	0
Accumulation of additional cost of living reserves	0	0
Release of cost of living reserves for bonus reserve	**–9**	**0**
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**89**	**89**
Operating result	*19*	*20*
Distribution ratio	*94.2%*	*94.4%*

All figures in CHF million

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

In 2018, Swiss Life used a total of CHF 308 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

Summary

	*MDR	**NMDR	Total
Gross income	*2 112*	*327*	*2 439*
Sum of expenses	*1 753*	*194*	*1 947*
Accumulation (+) or release (–) of technical reserves	81	25	106
Allocation to bonus reserve	156	89	245
Operating result	*122*	*19*	*141*
Distribution ratio	*94.2%*	*94.2%*	*94.2%*
Share of total income	*5.8%*	*5.8%*	*5.8%*
Bonus reserve	*294*	*99*	*393*

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

Insurance reserves

Insurance reserves		Mandatory	Supplementary
Retirement savings	37 438	18 773	18 665
Additional reserve for future pension conversions	2 216	1 682	534
Mathematical reserve for current retirement and survivors' benefits	13 599	6 356	7 243
Mathematical reserve for current disability and disabled person's children's benefits	1 976	1 308	668
Mathematical reserve, vested benefit policies	3 661		
Mathematical reserve other cover	3 538		
Strengthening of mathematical reserve for current pensions	3 056		
Provision for incurred but not settled claims	755		
Reserves for interest rate guarantees, claim and value fluctuations	0		
Other insurance reserves	130		
Cost of living reserves	634		
Total insurance reserves	*67 003*		

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 1.18% (2017: 1.38%). 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.

At the start of the year	**318**
Allocated to employee benefits institutions	–170
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	245
Balance as at end of 2018	*393*
of which: fixed allocation	180
of which: free	213

All figures in CHF million

From the 2018 result, Swiss Life allocated a total of CHF 245 million to the bonus reserve for group life insurance.

Cost of living reserves

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.

Balance as at beginning of year	**883**
Gross cost of living premiums	4
Outlay	–3
Expenditure for COL increases in risk pensions	0
Release for strengthening under Art. 149 para. 1a	–150
Release for bonus reserve	–100
Accumulation of additional cost of living reserves	0
Balance as at end of 2018	*634*

All figures in CHF million

Book values – Liability items

Total insurance reserves	67 003
Bonus reserve	393
Reserves for unearned premiums	0
Credited bonuses	138
Other liabilities	6 023
Total book value	*73 557*

All figures in CHF million

Other key figures

Number of group insurance contracts	44 249
Number of insured persons at end of accounting year	638 132
Number of active insured persons	460 028
of which number of fully insured persons	352 270
of which number of other active insured persons	107 758
Number of pension recipients	81 248
Number of vested benefit policies	96 856
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	1.18%
Conversion rate for women's supplementary insurance with full insurance (retirement age 64)	5.40%
Conversion rate for men's supplementary insurance with full insurance (retirement age 65)	5.41%

Information on the 2018 investment year

Following the upturn fuelled by inflation fears at the start of 2018, returns fell further over the course of the year due to the trade dispute and weaker economic indicators. In the US, returns had risen by May over 3.1% for the first time since 2011, but by the end of the first semester were already facing a countertrend, which became more pronounced. In the fourth quarter the yield on US 10-Year Treasuries fell by almost 40 basis points. The yield curves in the key currency areas continued flattening, while the credit spreads widened. There is still no sign of an interest rate turnaround: the returns on ten-year government bonds in Germany, France and Switzerland are lower than one year ago.

The return of volatility was a major factor in 2018. Investors are not likely to miss last year, the worst on the stock markets since the onset of the financial crisis in 2008. Apart from the Brazilian index, all major share price indices sustained significant losses. In early February the stock markets saw a correction due to fear of inflationary shock. On 22 August the US upward trend broke all records to become the longest in US economic history. The mood cooled again significantly when the IMF corrected its growth forecast downwards in the autumn. With losses in the two-digit percent range in numerous trading venues, December will go down as one of the worst months in history.

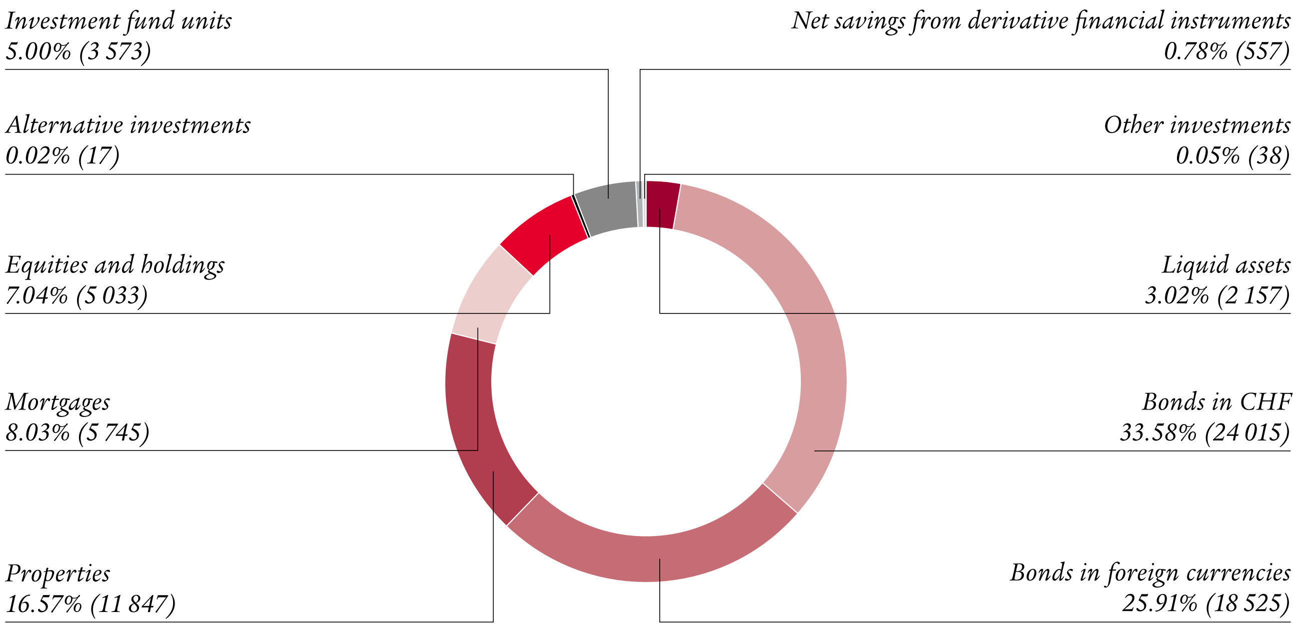
The euro was already having a rough time in March in the run-up to political decisions in Italy and Germany, but it came properly under pressure with the formation of the Italian government in June. In the second half year the protests in Paris and the budget dispute between Rome and Brussels weighed on it, while in December it was negatively affected by the meagre price trend. Sterling took a beating in November when a hard Brexit no longer seemed only to be a theoretical risk. Appreciation of the US dollar at year-end was halted by the shutdown. The franc in 2018 made up almost all ground lost to the euro in 2017. It had depreciated by 4.1% in trade-weighted terms in 2017 but regained 3.5% in 2018.

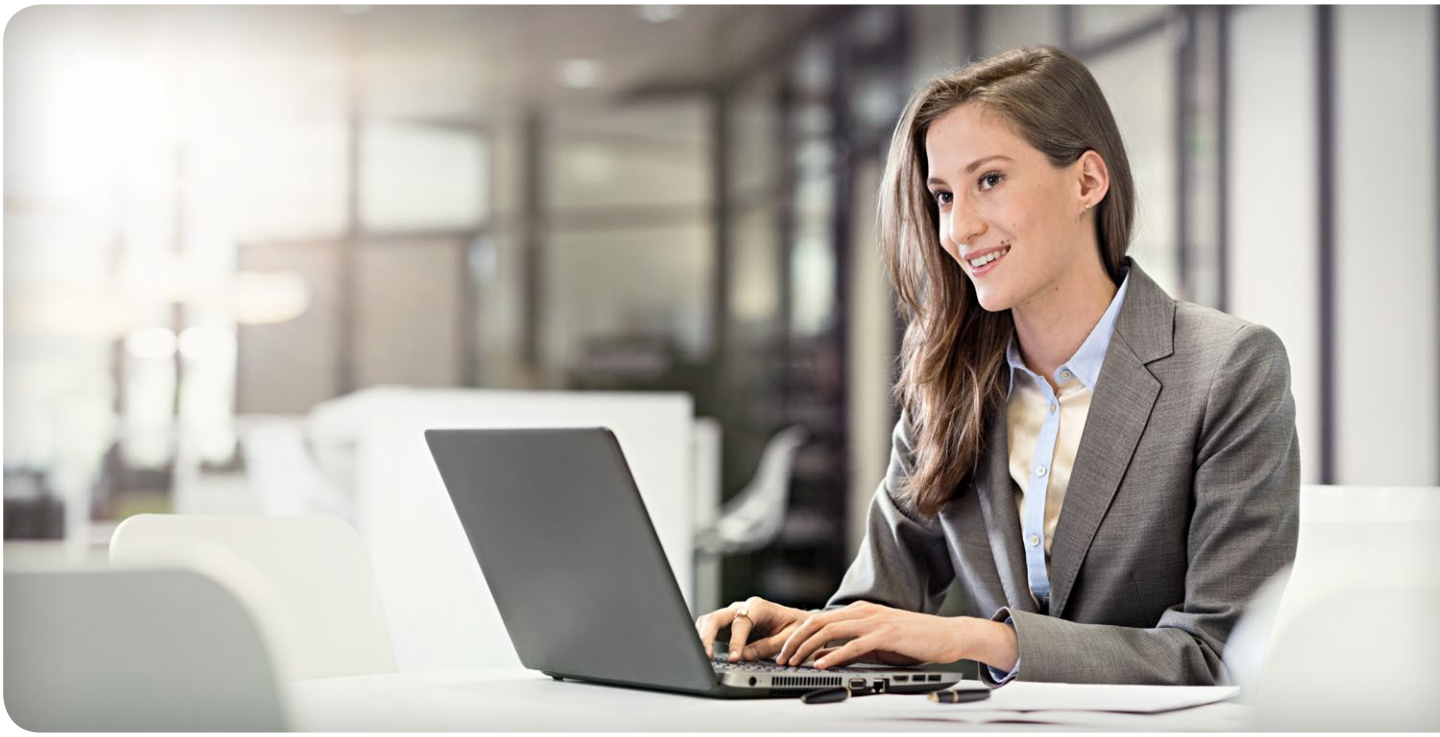
Information on Swiss Life's investment policy

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 2018 (as a percentage of the book value).
The total is CHF 71 507 million (all figures in brackets in CHF million).





Investments, valuation reserves, return and performance

Investments	Book value	Market value	Share
Investments at beginning of accounting year	68 892	78 330	
Investments at end of accounting year	71 507	79 637	100.00%
Direct investments		75 764	95.13%*
Single and multi-tier collective investment schemes		3 725	4.68%*
Non-cost-transparent investments		148	0.19%*

All figures in CHF million

**Measured by market value of investments at end of accounting year*

Valuation reserve	2018	2017
Valuation reserve at beginning of accounting year	9 438	8 956
Valuation reserve at end of accounting year	8 130	9 438
Change in valuation reserve	–1 308	482

Yield and performance	Brutto	Netto
Investment income	1 745	1 559
Return on book values*	2.49%	2.22%
Market value performance**	0.55%	0.32%

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	71 507
Obligations arising from derivative financial instruments	621
Other assets	1 429
Passive reinsurance	0
Total book value	*73 557*

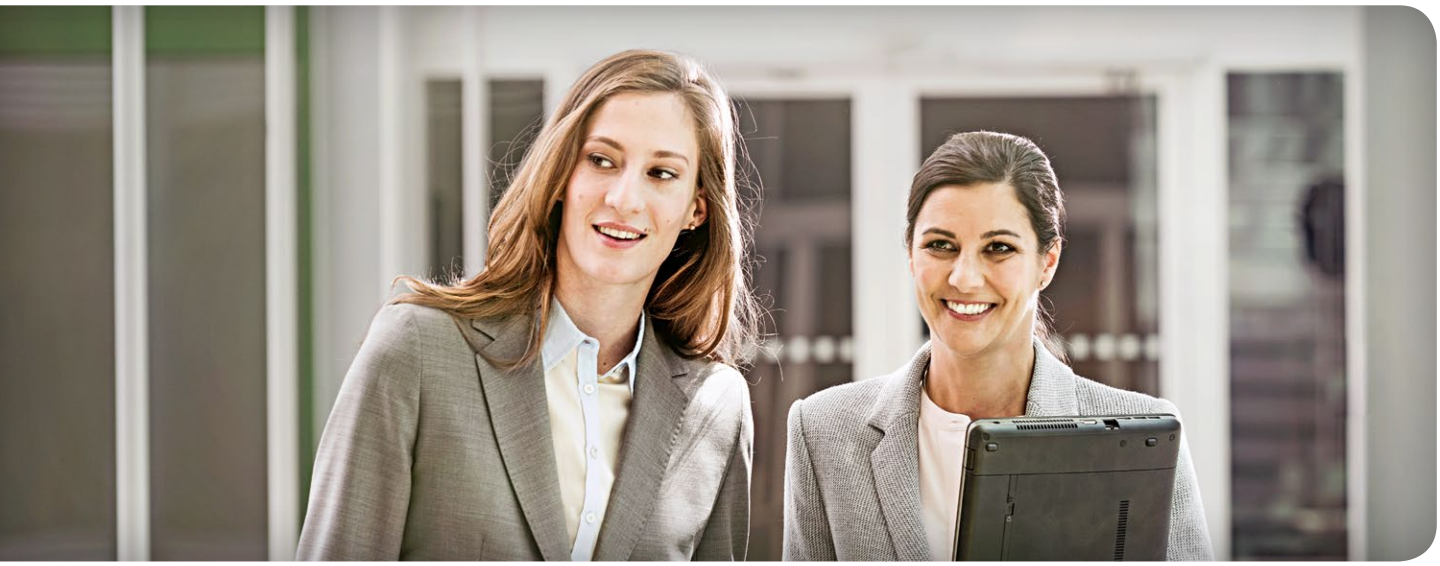
All figures in CHF million

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).

Asset management costs (net as per BVG operating account)	**186**
Asset management costs (gross as per OAK scheme)	**325**
TER costs	266
Direct investments	241
Single and multi-tier investments (cost key figure)	25
TTC costs	51
Service costs	8
Capitalised costs	**–38**
Maintenance and upkeep costs for properties	**–101**

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	213	464	204	444
Vested benefits policies	4	41	3	32
Other	4		3	
Subtotal	*221*	*409*	*210*	*330*
Pensioners	40*	497		
Total	*261*			

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

Breakdown of operating expenses by cost unit	
Acquisition expenses	74
for brokers and intermediaries*	33
for sales force	41
Other	0
Expenses for marketing and advertisement	4
Other general administrative expenses	143
Acquisition and administrative costs	**221**
Benefit processing expenses	40
Reinsurers' share in operating expense	0
Total net operating expense	*261*

All figures in CHF million

**Incl. commissions for distribution agreements*

The administrative costs of CHF 221 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.

Swiss Life Ltd
General-Guisan-Quai 40
P.O. Box
8022 Zurich
www.swisslife.ch

Swiss Life Ltd
General-Guisan-Quai 40
P.O. Box
8022 Zurich
www.swisslife.ch

05.2019