Investors’ Day
Integrated value management

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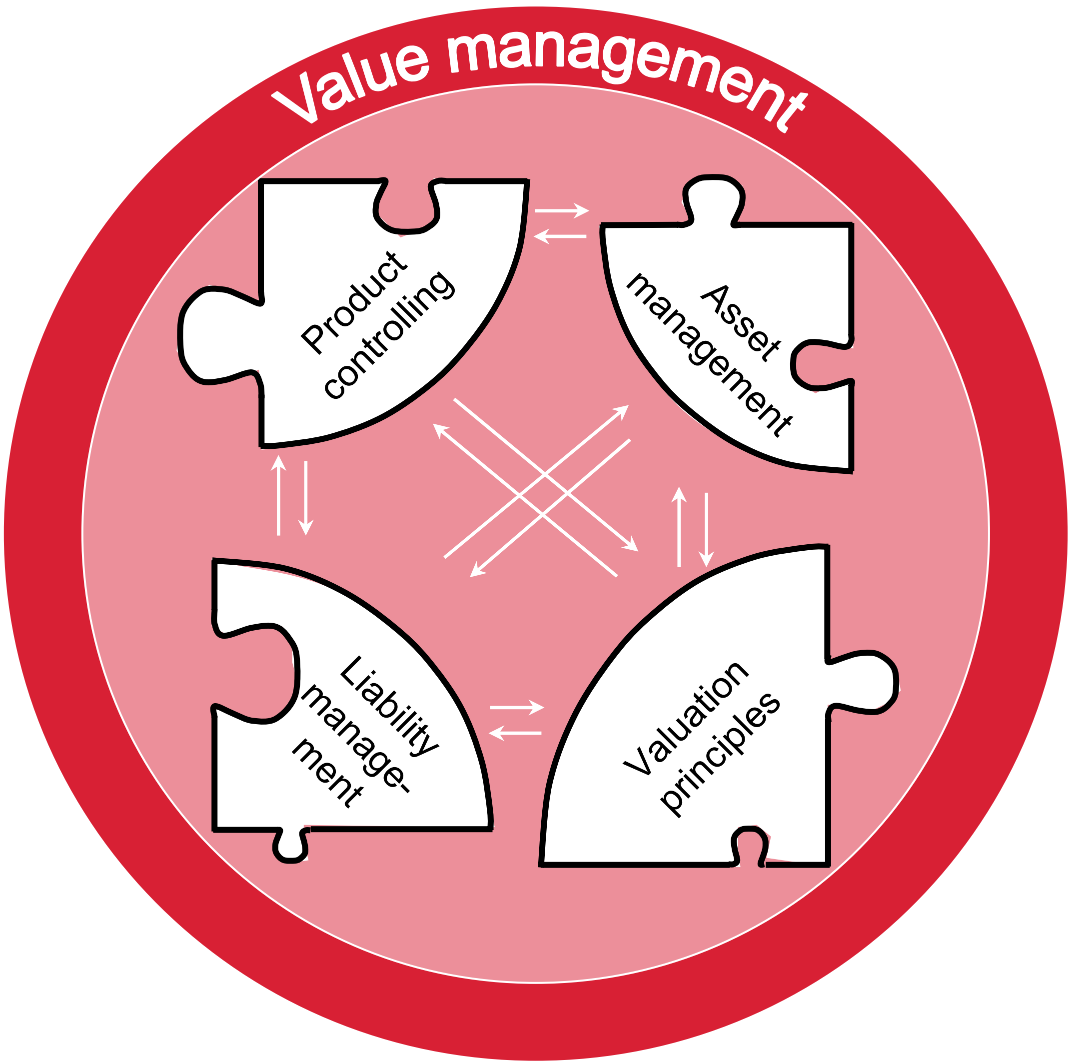
The elements of Swiss Life's value management are interlinked with each other



Agenda

1.	**Product controlling: From product development to profitability controlling**	**H.J. Wolter**
2.	Liability management: Reserving and crediting approach	H.J. Wolter
3.	Asset management: Interest rate scenarios	B. Pfister
4.	Valuation principles: Economic profit and embedded value	B. Pfister
5.	Summary	B. Pfister

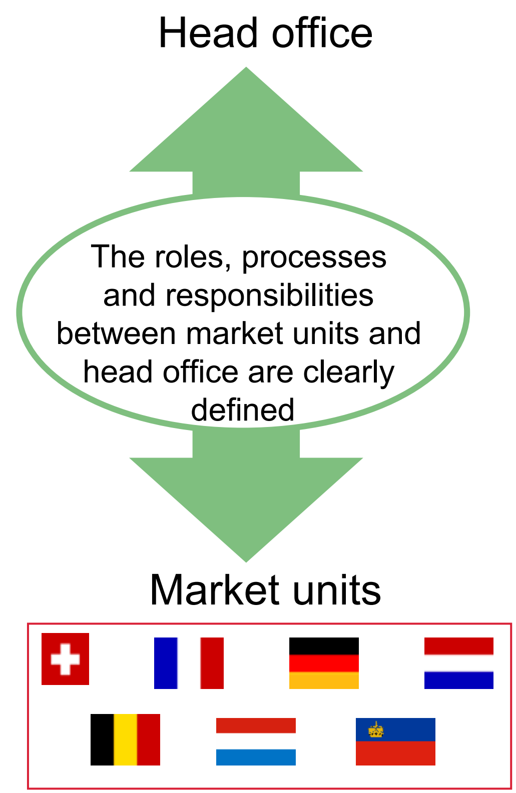
Our corporate governance enables a balance between local focus and central control

Principles

- Guidelines defined by head office
- Responsibility for profit and risks with market units
- Methodologies prescribed
- No product launch without approval

Processes

Product develop-ment → **Under-writing/ re-insurance** → **Profit-ability controlling**



Product controlling processes cover the entire product life cycle

	Product development	Underwriting/ reinsurance	Profitability controlling
Principles	• Guidelines on procedures • Strict compliance by market units • Methodologies prescribed (economic pricing principles) • ExB decision required if hurdle rate not met	• Limit adherence • Decentralised approach	• Standardised reporting requirements • Global monitoring on group level
Processes	• Minimum task list • Profit testing/business case • Documentation • Sign-off by BU • Audit procedure possible • Actual product develop-ment (local)	• Limit setting • Escalating approval procedure • Reinsurance guidelines	• Regular reporting based on: – Embedded value – Economic profit

Profitability controlling: Economic profit as well as embedded value used to assess business

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	Pros	Cons	
Economic profit	• Embedded options and guarantees are considered explicitly • No assumption about future returns • Small set of assumptions	• Not applicable for – In force business – All products • No external review	Used for product development
Embedded value	• Margin control in projected profits • Applicable to all lines of business • External review	• Only implicit for guarantees and embedded options • Not fair to all products • Large set of assumptions required	Used for external reporting

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Reserving: Prudent reserving is one of our strengths

Our standards

- No compromise of prudence principle
- Clear policy for additional reserves and reinforcements

IFRS reserves ✓

- Reserves are set up according to a Group-wide standard
- No additional reserves permitted

Local statutory reserves ✓

- In each country reserves are set up according to local regulations
- Additional reserves are set up according to local recommendations

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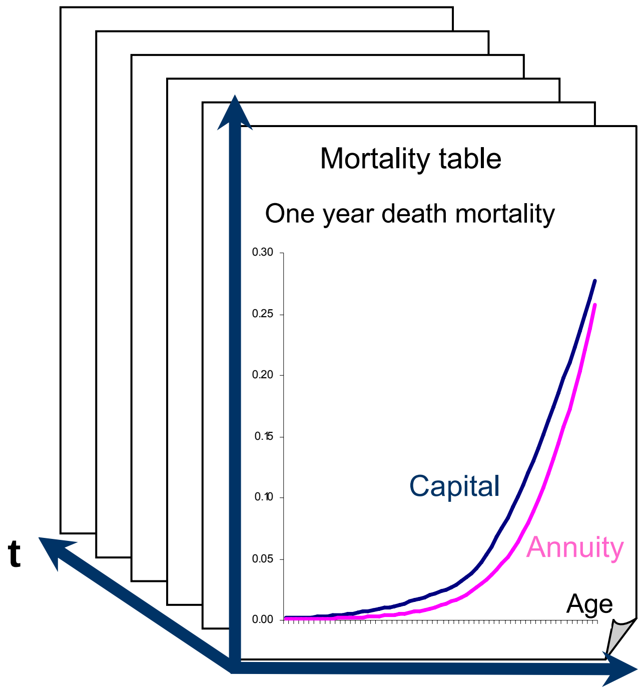
- Reserves are audited by the external auditor (PwC)
- Additionally, the parent company and branches are audited by a technical auditor

Reserving: Accounts for all dimensions of the insurance business

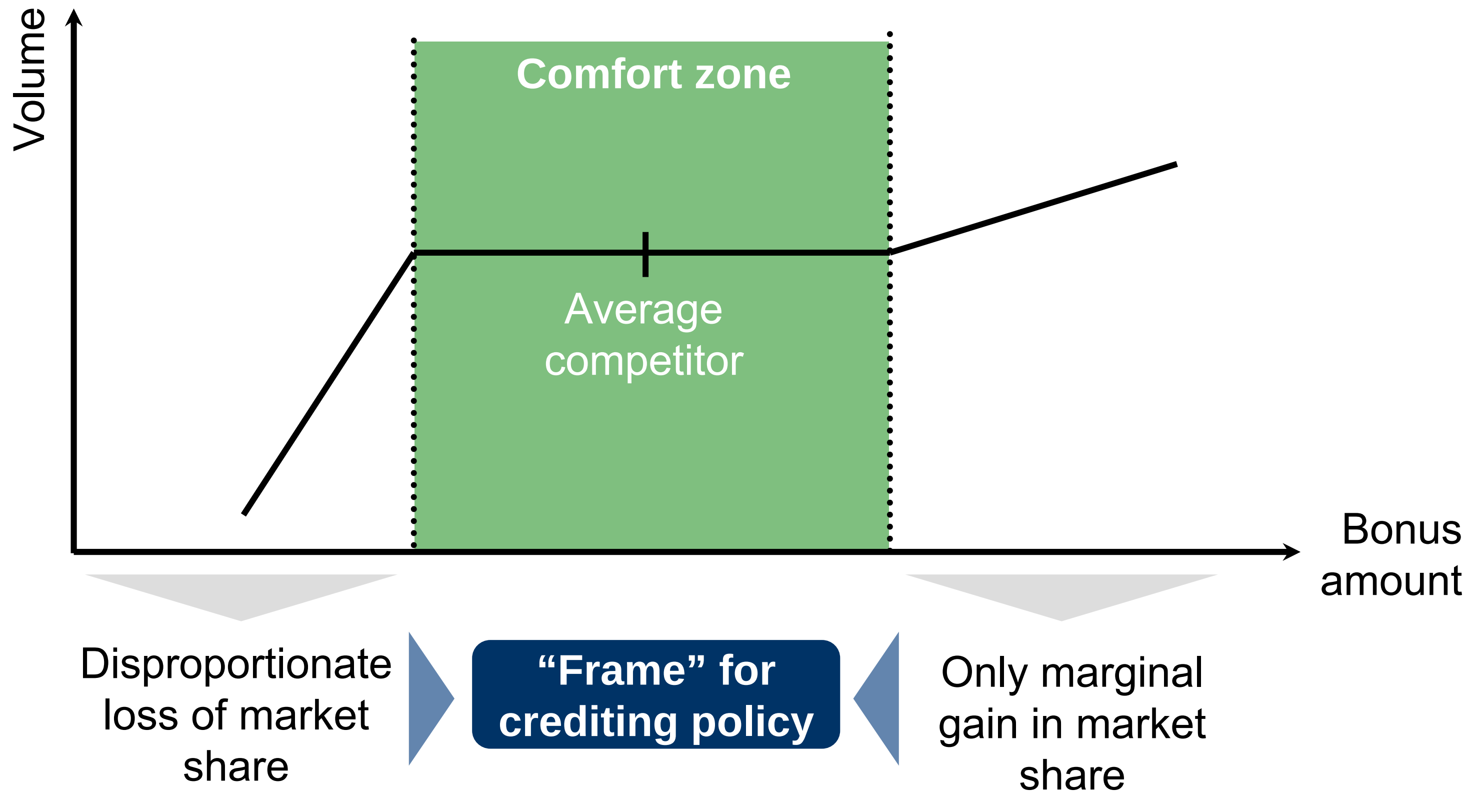


Minimum **General reserves** are set up according to **local regulations**

Additional reserves accounting for the dynamics of the mortality tables covering:
- Longevity
- Disability

- **Swiss Life covers dynamics due to early adaptation of mortality tables**
- **Compared to European peers the more advanced mortality tables are used**

Crediting policy: Looks at competitors' and customers' behaviour



Ensure being in the comfort zone in order to balance danger of disproportionate loss of market share and marginal gain in market share

Crediting policy: Allows all stakeholders to benefit from Swiss Life's results

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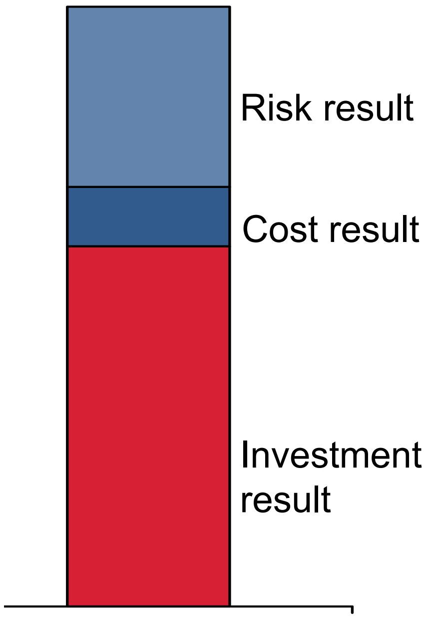
Sources of funds



Reserve strengthening

Shareholder return

Bonus reserves

Crediting policy

	Reserve strengthening	Shareholder return	Bonus
SL Zurich individual			
SL Zurich group			
SL Germany			
SL France			
SL Netherlands			
SL Belgium			
	Company	Shareholder	Policyholder

Agenda

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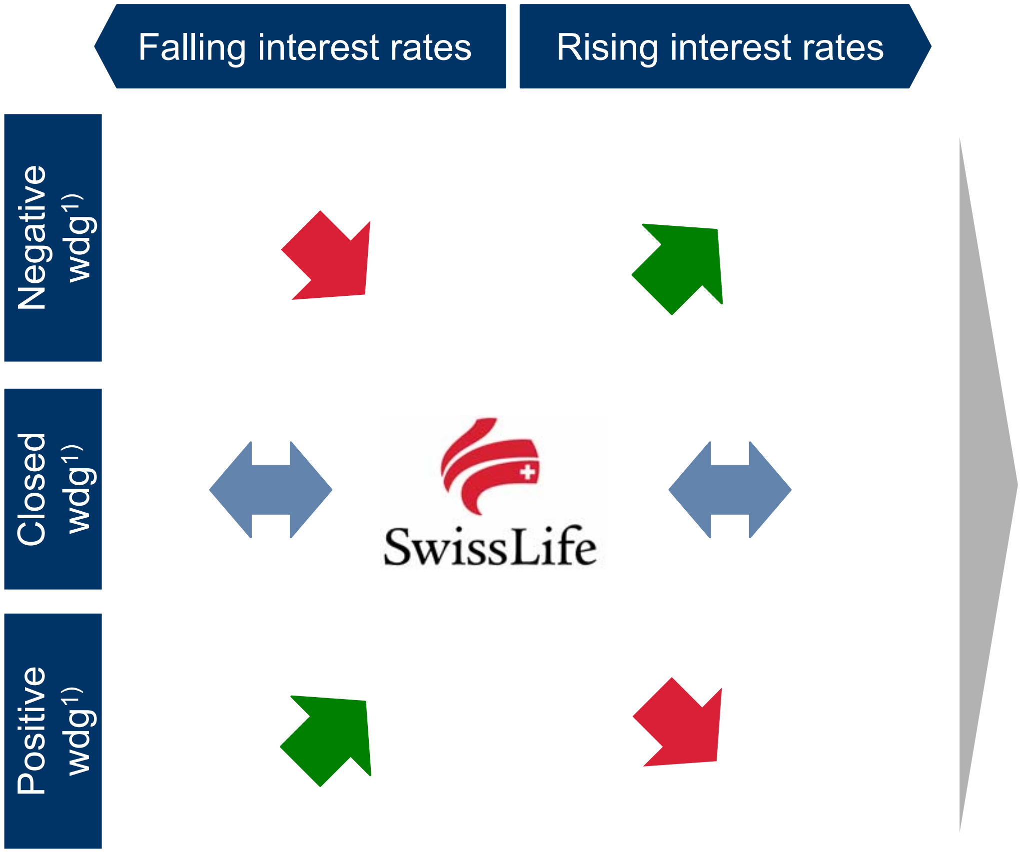
We are prepared for all economic environments

1. Starting point with closed duration gap
2. Customers' reactions to interest rate movements
3. Management of our assets according to expected changes in liabilities
4. Allocation of gains to different stakeholders

Closed duration gap provides maximum flexibility to asset management



- Economically safe
- Full flexibility to react to market moves
- Less than 5% of bonds classified as HTM

Stable economic net worth
Increase in economic net worth
Decrease in economic net worth

1) wdg: weighted duration gap = $\alpha D_A - \beta D_L$

Surrender rate lower than rationally predictable

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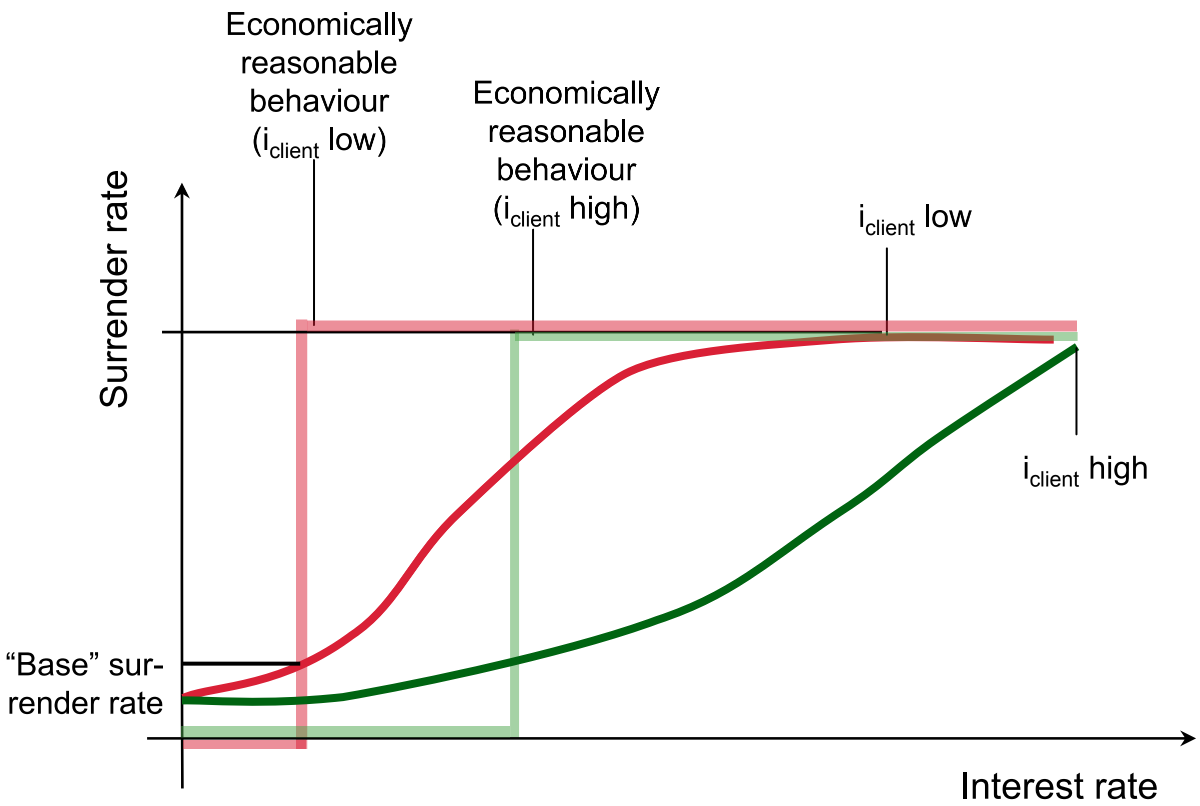
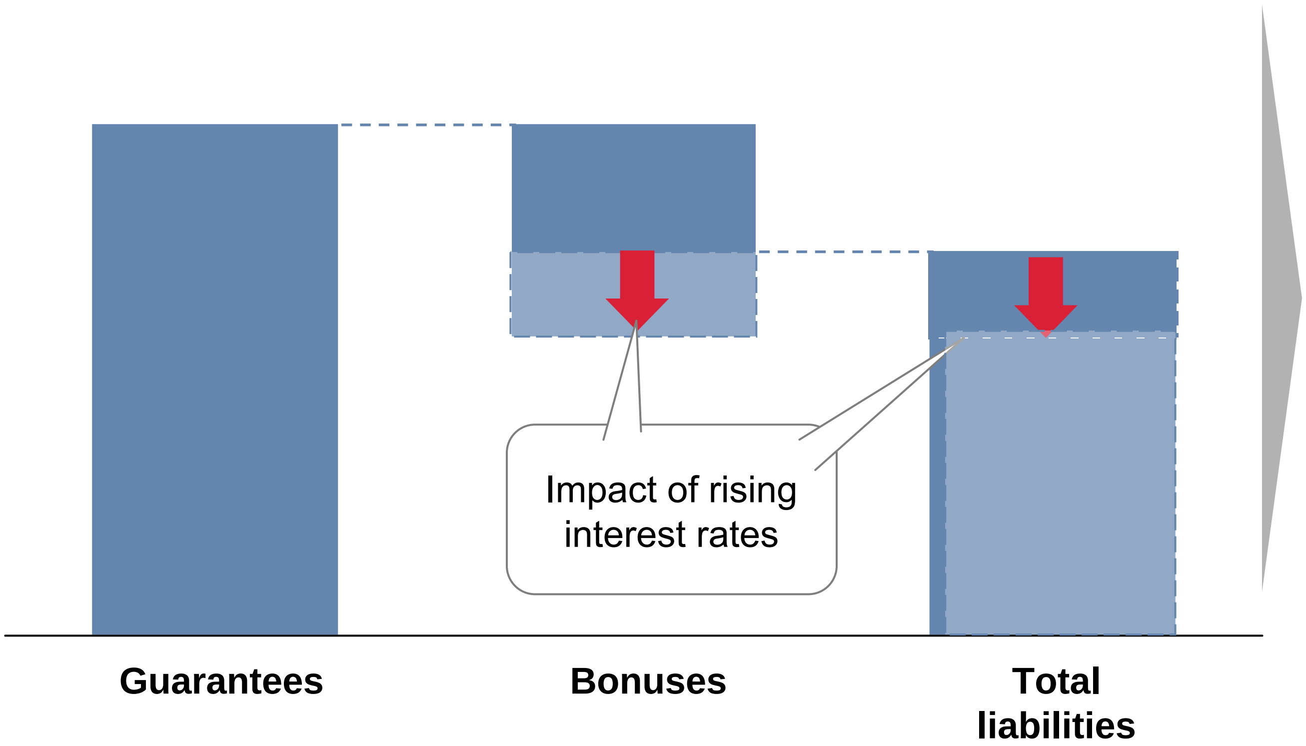


Historical surrender rates are lower than the ones of the homo oeconomicus

Note: i_{client}=Net client return

Duration of insurance liabilities change constantly

Sources of duration contribution

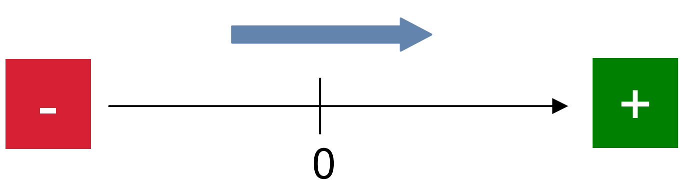


- Guarantees determine maximum duration of insurance liabilities
- Rising interest rates decrease the duration of total insurance liabilities and vice versa

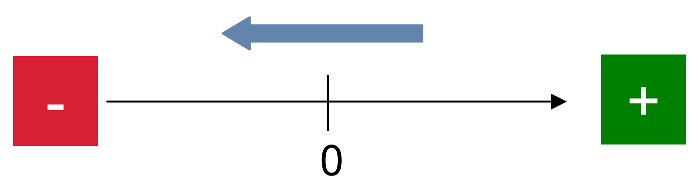
Assets have to be actively managed depending on expected interest rate scenario

	Falling interest rates	Rising interest rates
Conse-quences	• L-duration rises due to lower bonuses • Asset duration too short • Consumed available risk capital • Increased solvency	• L-duration falls due to higher bonuses • Cross-subsidisation of the in force business with the new business • Solvency decreases to a stable value of 142%
Actions	• Asset duration will be lengthened • Create profitable products suiting customers' needs in low interest rate environment	• Restructure asset portfolio in such a way that the duration gap is negative before valuation reserves on bonds vanish • Create profitable products allowing customers to participate in rising interest rates

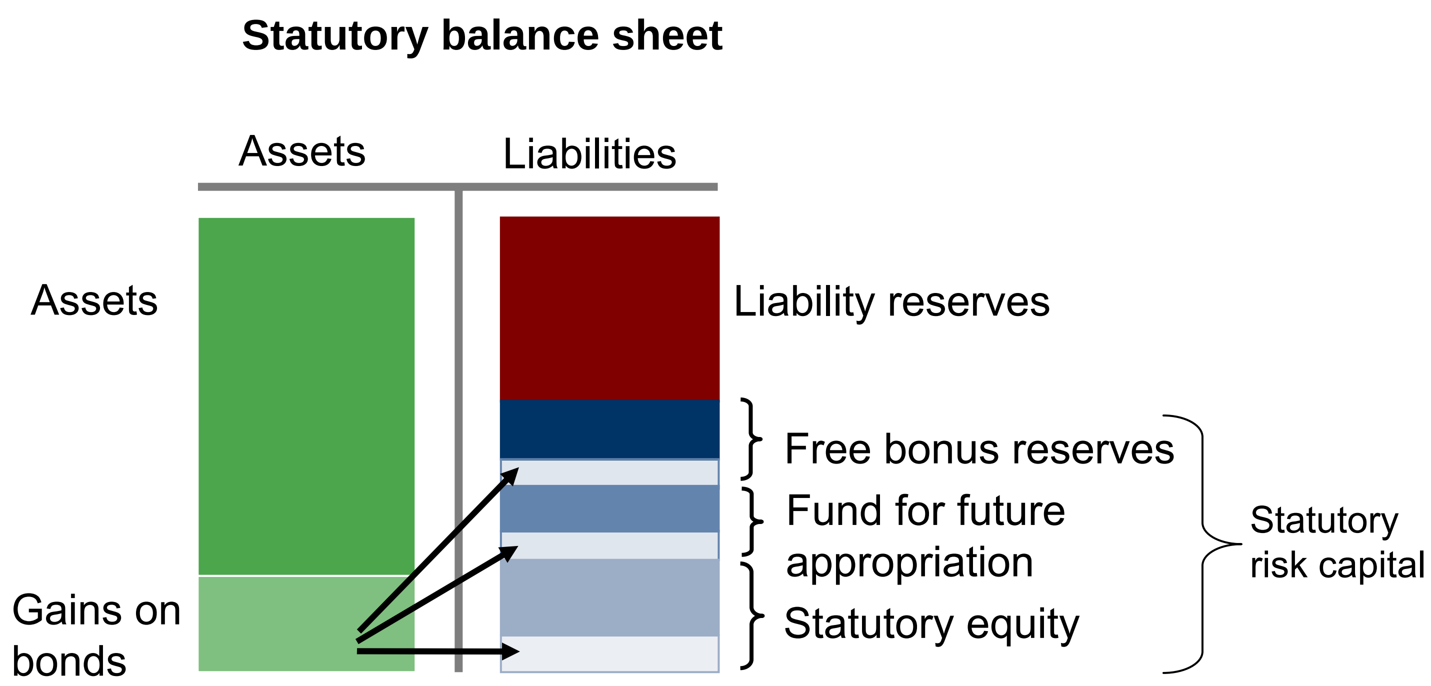
Impact on duration gap



Impact on duration gap



Policyholders provide part of the risk capital



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For Swiss Life importance of options often overestimated

Definition

Policyholder's right to change certain terms of the policy during its lifetime
- Legal rights
- Contractual rights

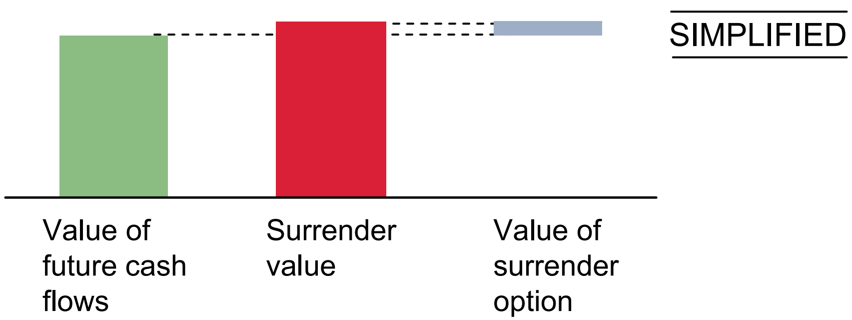
Examples

- Right to surrender
- Right to stop paying premiums
- Right to take capital instead of annuity

Under predefined conditions

Value of surrender option

Example of surrender option after interest rates have risen

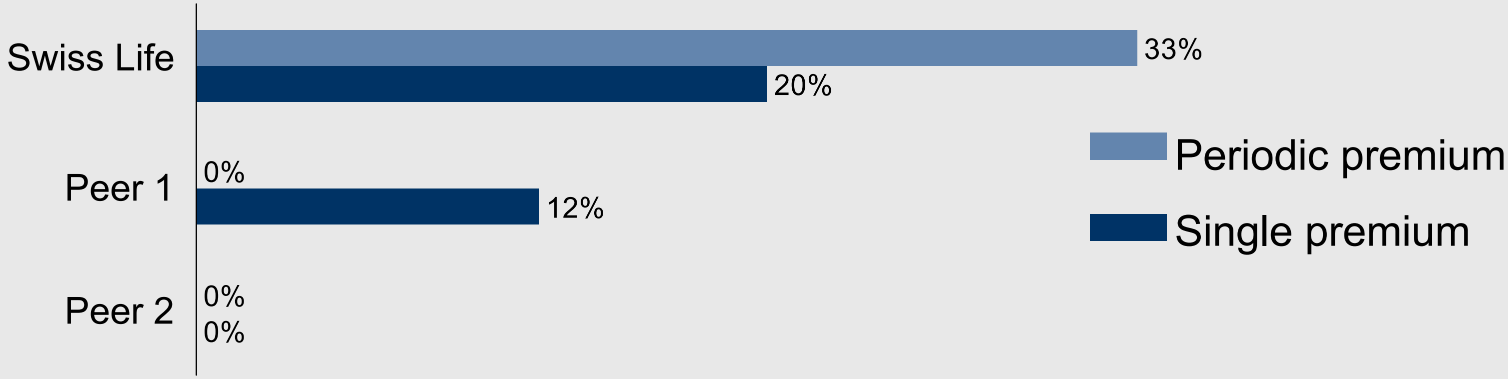


Reduced exposure of Swiss Life to surrender options

Percent

Peer comparison

“Surrender penalty” in individual business Switzerland (Pillar 3b)



Implications on value of embedded options

- **New contracts** with low interest rates
  ➔ Little incentive to surrender since surrender values are interest rate dependent → Low option value
- **Old contracts** with higher technical interest rates
  ➔ Little incentive to surrender → Low option value

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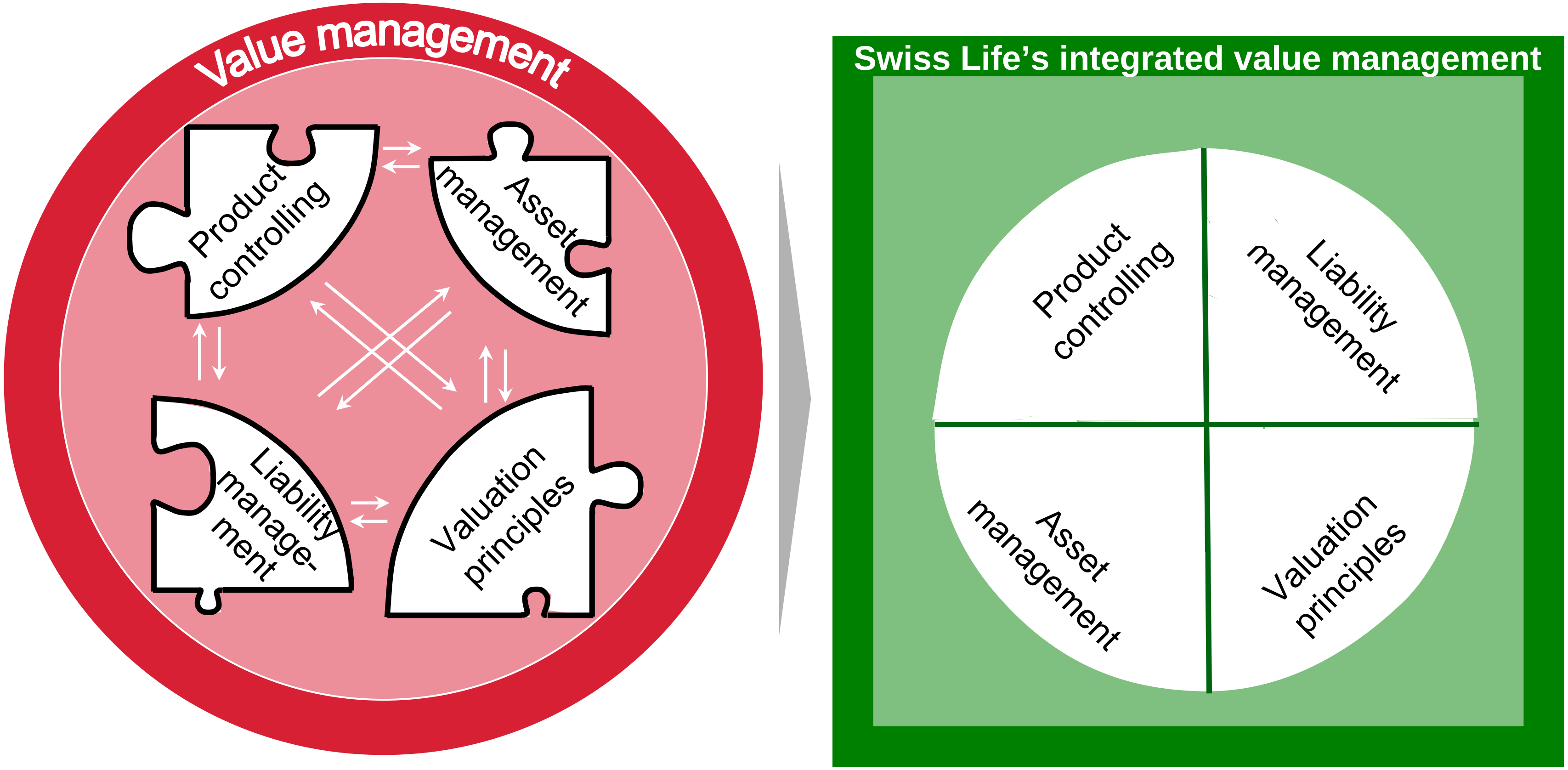
Integrated model creates full coherence and greater effectiveness



- Each value management element is measurable independently
- The art of value management lies in balancing every element with the others
- Communication between the departments involved is crucial

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