

Investors' Day 2010

**MILESTONE: Managing for value at Swiss Life**

Thomas Buess, Group CFO  
Zurich, 24 November 2010

# Agenda








## → Introduction


Enhance customer value and new business profitability

Improve operational excellence

Preserve the balance sheet and optimise in-force business

# MILESTONE: Managing for value at Swiss Life

Workstream	Objectives	Status
1 Enhance customer value & new business profitability	<ul style="list-style-type: none"> <li>▪ New business margin &gt; 2.2%</li> <li>▪ &gt; 70% of NBP from modern and risk products</li> </ul>	 
2 Increase distribution quality and power	<ul style="list-style-type: none"> <li>▪ 20–25% share of Swiss Life products in relevant product categories of AWD</li> </ul>	
3 Improve operational excellence	<ul style="list-style-type: none"> <li>▪ CHF 350–400 m reduced cost base vs 2008</li> </ul>	
4 Preserve the balance sheet & optimise in-force business	<ul style="list-style-type: none"> <li>▪ ROE 10–12%</li> <li>▪ Dividend payout ratio 20–40%</li> <li>▪ Comply with SST / Solvency II requirements</li> </ul>	  

5 **Drive disciplined execution** 

Reporting on achievements, challenges, and actions on ongoing basis

# Agenda

Introduction

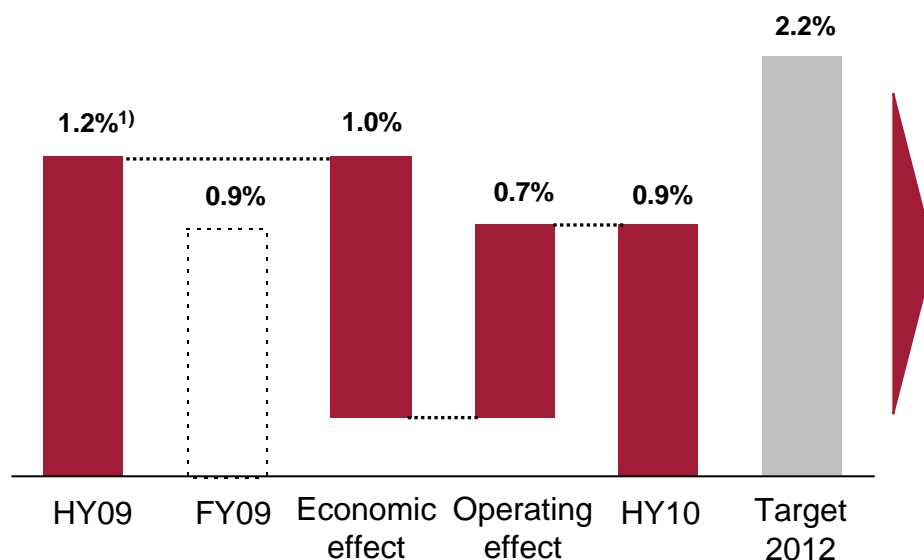
→ **Enhance customer value and new business profitability**

Improve operational excellence

Preserve the balance sheet and optimise in-force business

# Negative economic effects on new business margin compensated

New business margin development (VNB as % of PVNBP)



## Interest rate effect and MILESTONE impacts influencing margin development

### Negative economic effects

- Lower interest rates
- Higher volatilities
- No liquidity premium at FY09 and HY10

### Positive MILESTONE impacts

- Group-wide cost savings initiatives
- Repricing and lowering profit sharing for: CH, DE, PPLI
- Shifts in product mix
  - CH: shift to modern products
  - FR: increased share of UL<sup>2)</sup> within Life
  - DE: higher share of risk products
- Higher sales volumes and related scale effects: PPLI, FR, DE

1) Incl. liquidity premium of 50 bps for CH, FR, DE & Lux  
 2) Unit-linked

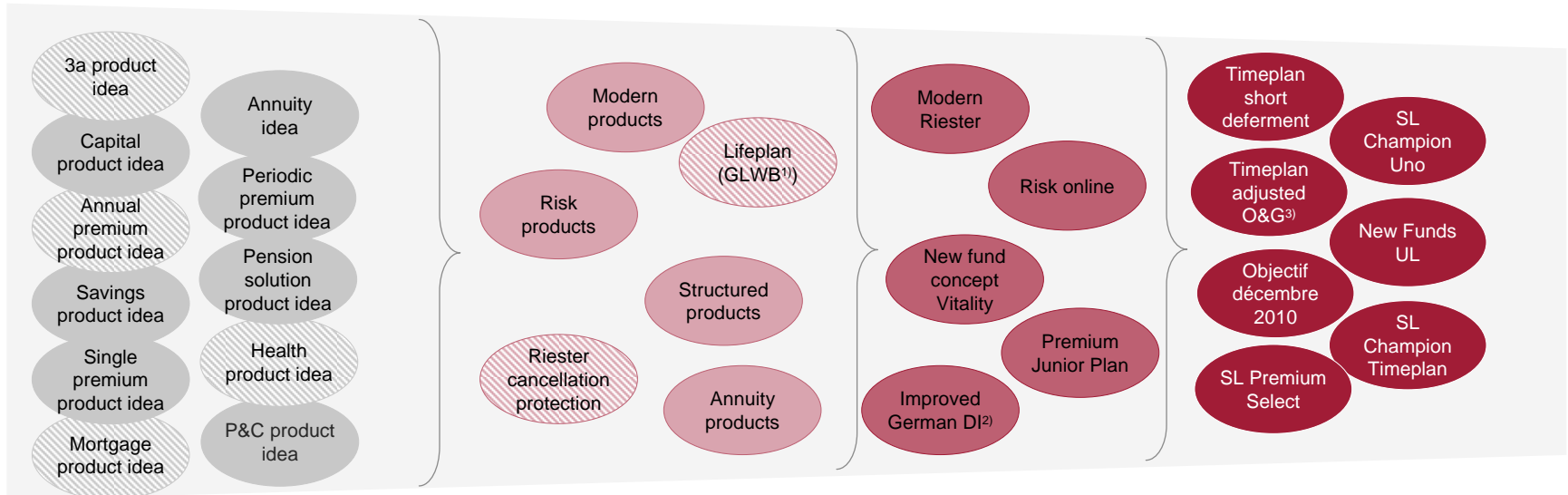


## Disciplined product development process



### Product idea

### Product project



- Create value to customer
- Implement product strategy
- Initiate risk management

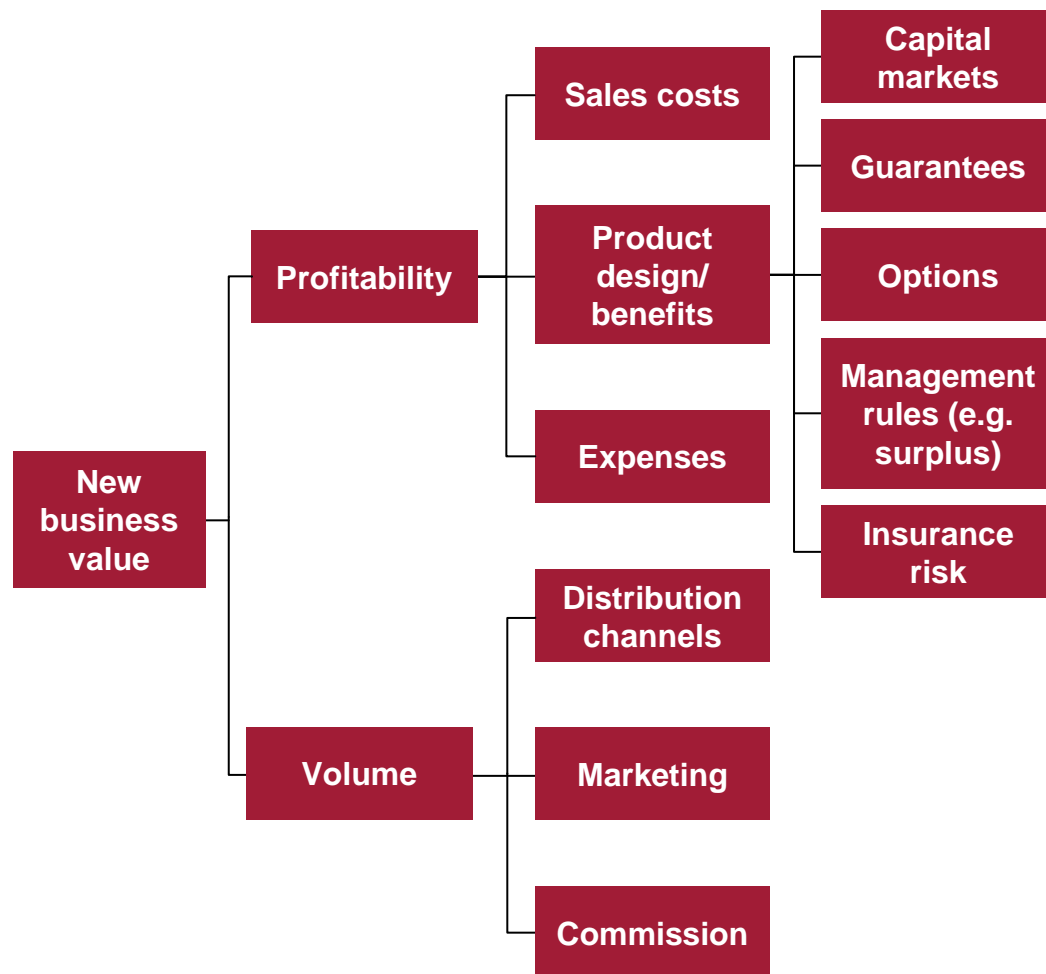
- Validate business case
- Optimise profitability by source

- Facilitate successful launch
- Manage product life cycle

1) Guaranteed Lifetime Withdrawal Benefit 2) Disability Insurance 3) Options & Guarantees

## Enhance new business profitability by diligently addressing all levers

Value tree

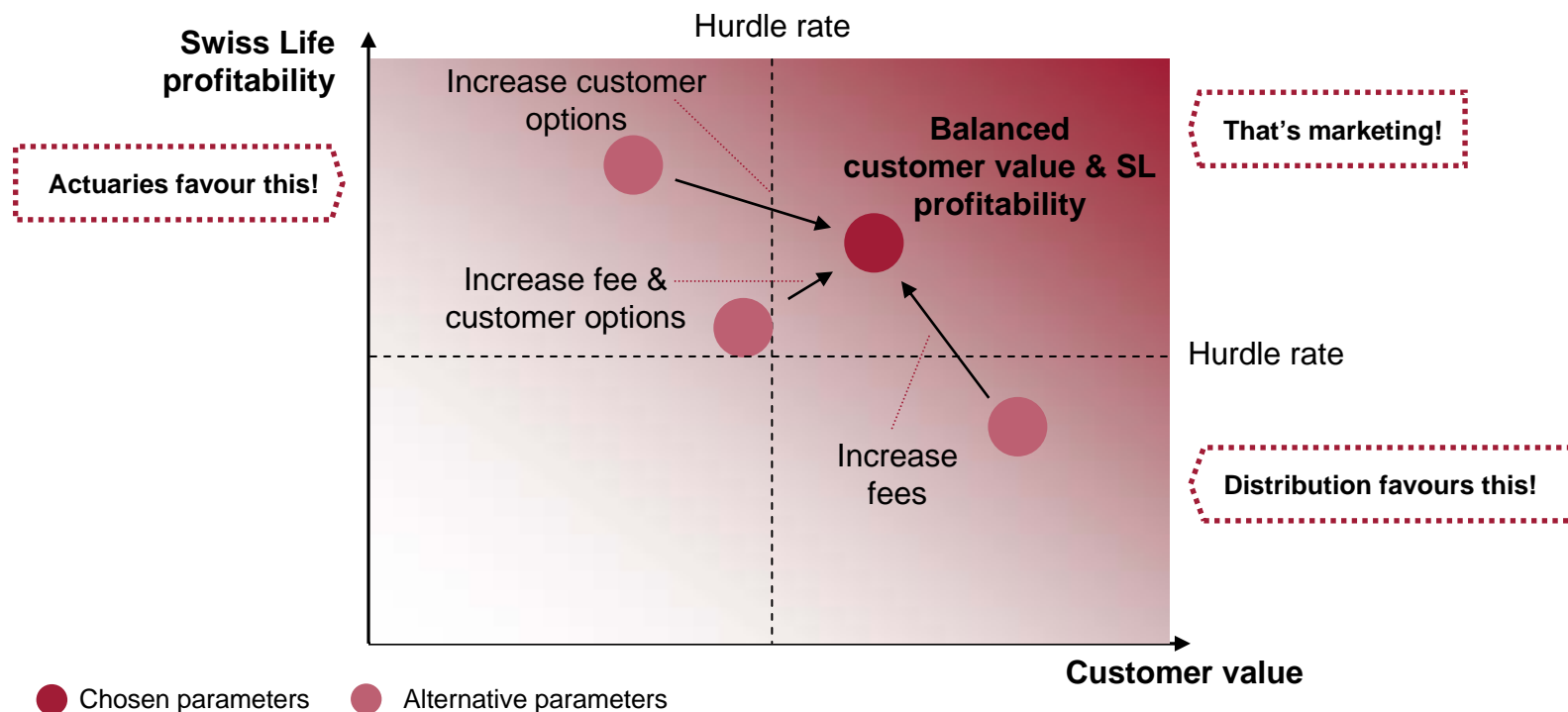


### Major action fields

- Adjust loadings when necessary
- Reduce sales cost
- Increase volumes for profitable products
- Push profitable risk riders
- Strict underwriting discipline
- Structure options and guarantees so that customers recognise their value
- Weed out unprofitable products

# Balancing customer value and new business profitability

Case example Swiss Life Switzerland: New modern product



- Selected product version is an optimal balance between customer value and profitability, also when taking competitors offerings into account
- This allows us to generate substantial volume at an optimal profitability level
- **To counteract economic environment previously identified contingency measures are executed e.g.: Increase of issuing commission and reduction of equity quota in underlying funds as of December 2010**



# Margin management to increase profitability of new business

Case example Swiss Life Switzerland: Existing traditional product

### Measures effective in January 2010

- Reduced guaranteed interest rate and policyholder participation for new business

### Measures effective in August 2010

- Reduced policyholder participation for new business
- Reduced guaranteed benefits for new business
- Maximum entry age reduced to 75

+ 10% margin<sup>1)</sup>

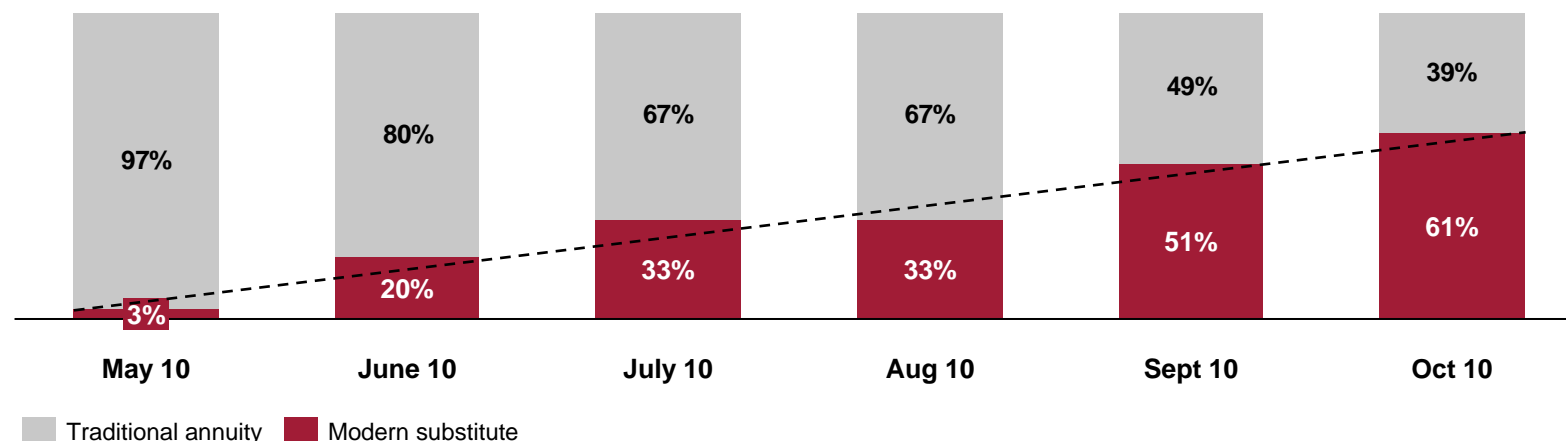
+ Increased average policyholder lifetime

Contingency measures in place in case of further deterioration of the economic environment

1) Internal profit model at product level: profit margin before fixed costs

# Replacement of traditional annuity through modern substitute with similar features

Case example Switzerland: NBP<sup>1)</sup> development of traditional annuity product and its modern substitute in Individual Life



## Value to customer

- Modern substitute responds to market research revealing customers' request for unit-linked capital consumption solution
- Easy to understand, flexible and transparent
- Provides guaranteed income with upside potential
- Fund value available to customer at all times to support liquidity

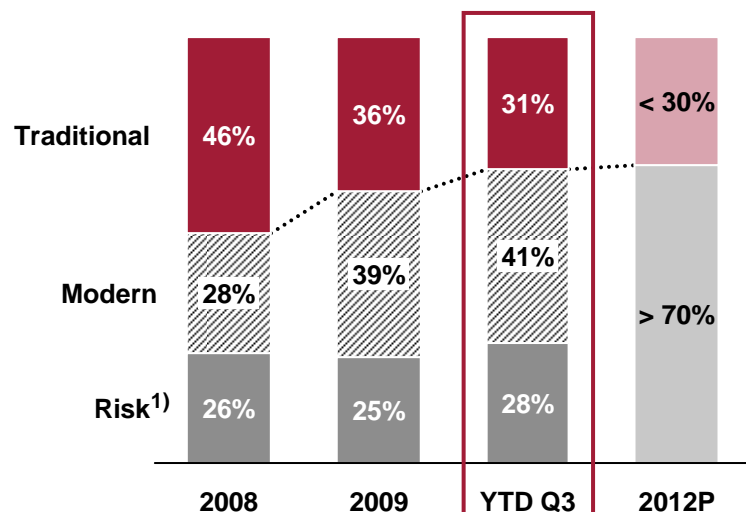
## Value to Swiss Life

- Flexible and quickly adjustable guarantees
- Lower risk capital requirements

1) New business production

# Shift to modern and risk products already at 2012 target

New business product mix (based on NBP)



### Without PPLI

Trad.	53%	52%	42%
Modern	16%	14%	20%
Risk	31%	34%	38%

### 2012 shift target already met

- Several product launches and improvement of existing products
- Higher volumes in SL Champion product line in CH
- Higher share of risk and health products in FR
- Continuing growth in disability products in DE
- Strong sales of Life Asset Portfolio product line in PPLI

### Further improvements & product launches planned/in progress

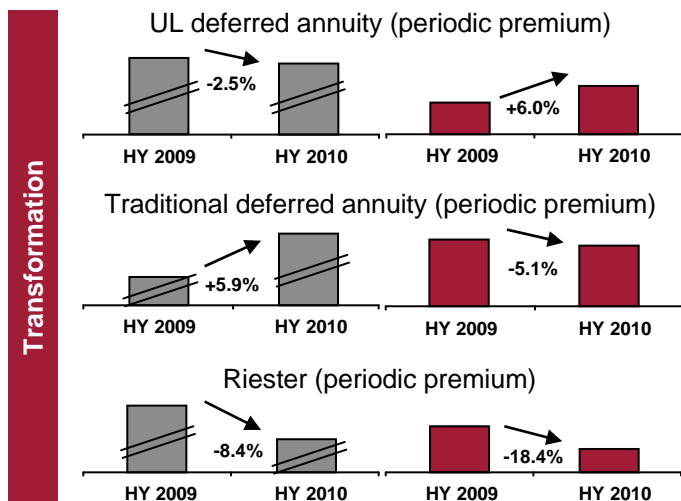
- CH: Further product modifications, "SL Premium Junior Plan"
- FR: Funds offers (such as structured products, real estate fund, SLAM funds), dedicated products to IFAs with investment mandate, risk product (death and disability) for salaries and self-employed
- DE: "Modern-Riester", re-launch of disability products

1) Incl. health

# Successful focus on UL and risk products in Germany ...



Case example Swiss Life Germany

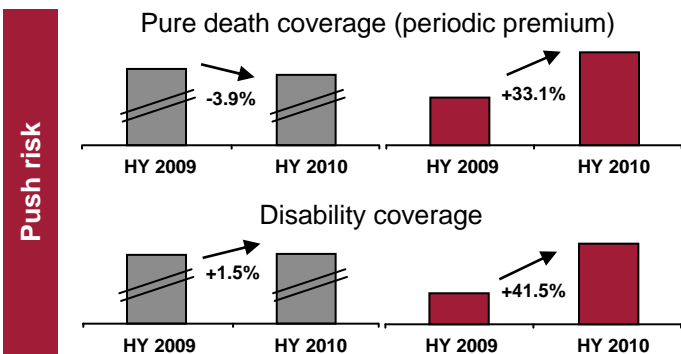


### Strategic focus

- Increase UL business with and without guarantees
- Decrease traditional business while maintaining strengths in specific businesses like company pension schemes
- Take opportunities to tap into UL segments with low market shares to boost transformation e.g. replace traditional Riester with modern Riester

### Action taken

- New funds and investment strategy introduced for most UL products and profitability increased by September 2010
- Surplus is being strictly managed while guarantees are being kept at competitive level



### Strategic focus

- Seize opportunities to further push risk
- Focus on strong and profitable risk products

### Action taken

- Offer risk products for non facultative death coverage
- Develop new generation in order to increase margin while keeping attractive new business volumes

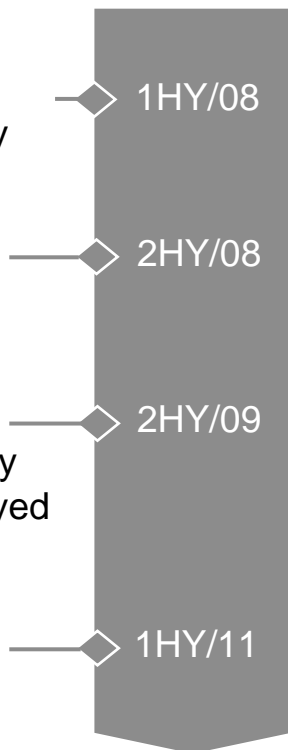
Market Swiss Life

Source market data: GDV, GWP in kEUR

## ... supported by AWD

Case example Swiss Life Germany

- SL basis plan UL
- Supplementary occupational disability insurance
- SL Champion
- SL Champion direct insurance
- Occupational disability insurance self-employed
- Modern Riester
- Disability insurance premium rates



### Swiss Life Germany – AWD channel

NBP in EUR million



## Key messages

▶ **Negative economic effects on margin offset by margin management**

▶ **Product pipeline drives shift to modern and risk products**

▶ **Focus on profitable modern and risk products is paying off**

▶ **AWD sales are contributing to product shift**

▶ **New business production already at ~70% modern and risk products in 2010**

# Agenda

Introduction

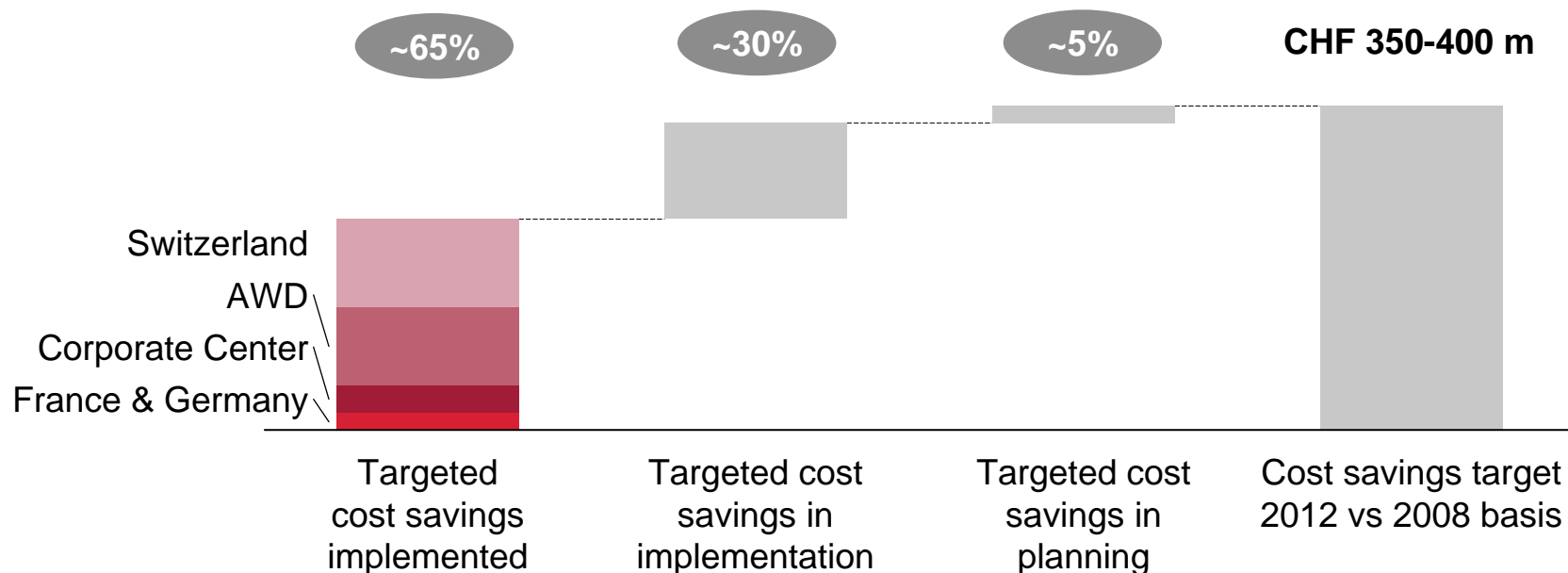
Enhance customer value and new business profitability

→ **Improve operational excellence**

Preserve the balance sheet and optimise in-force business

# Continuous progress in implementing targeted cost savings

Status of targeted cost savings initiatives YTD Q3



## Major achievements

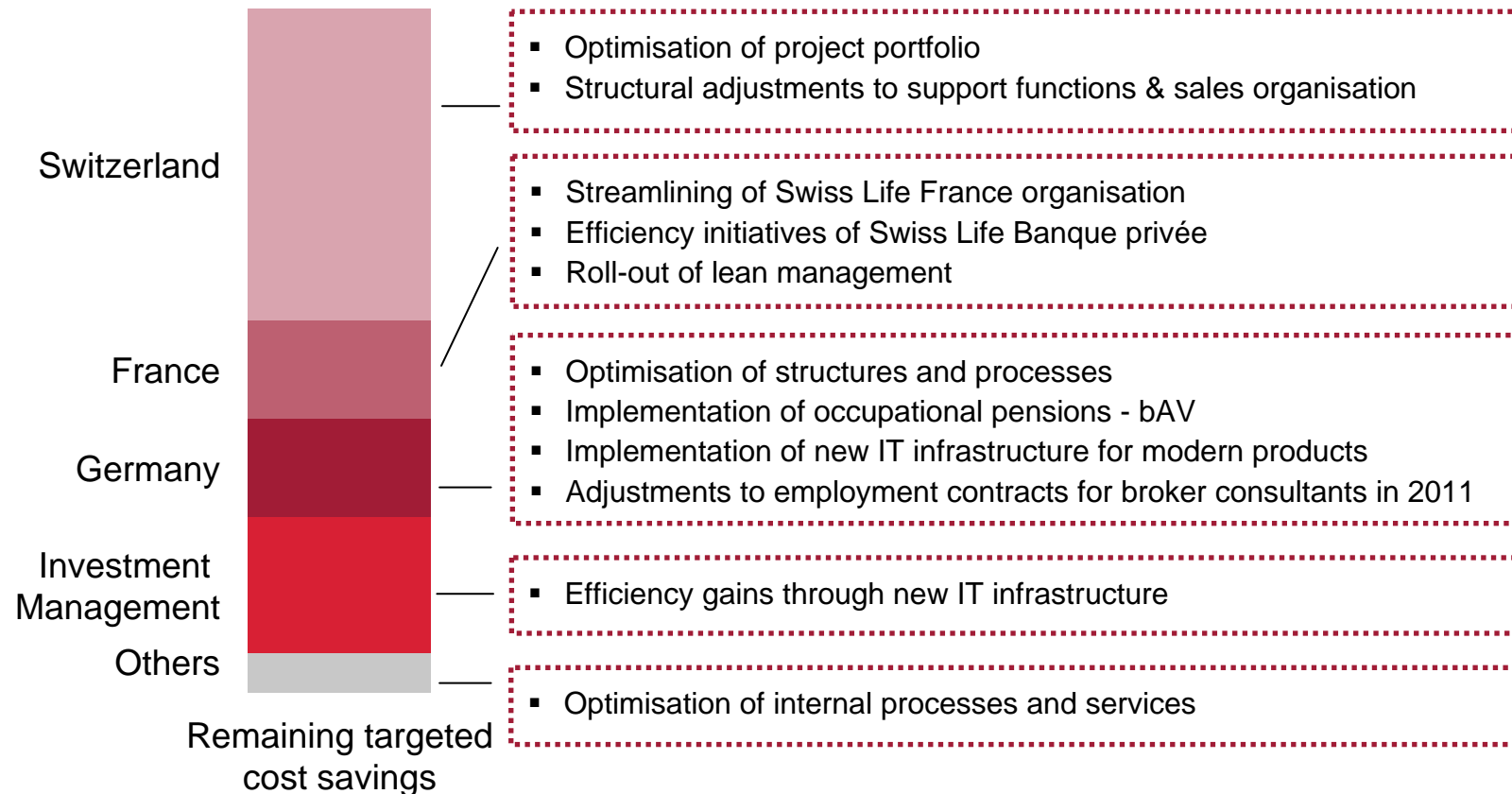
- Swiss Market division with major cost saving contribution in Q3 2010
- Reduced Corporate Center costs by 40% since 2008
- Successfully completed negotiations in Germany and France with social committees to implement efficiency improvements and optimise office structures
- AWD has achieved its target of EUR 69 m cost savings



# All market units and Investment Management are contributing to the remaining ~35%

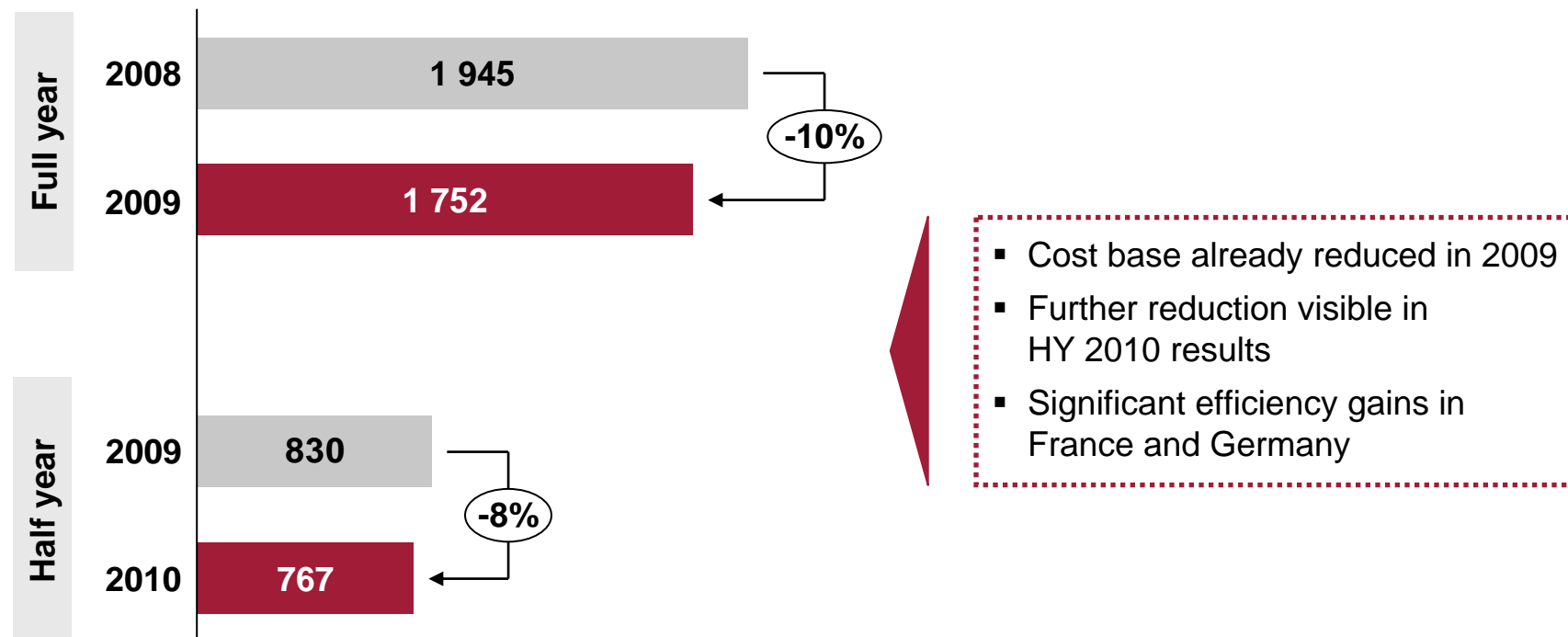


## Major initiatives



# Cost savings with already positive effects on P&L

CHF million (IFRS basis)



## Key messages

▶ **65% of targeted cost savings of CHF 350 – 400 million already implemented**

▶ **Progress proven by positive impact on FY 2009 and HY 2010 P&L**

▶ **Disciplined implementation in place to achieve the remaining 35% of cost savings**

▶ **Cost savings with positive impact on bottom line and ability to invest in profitable growth**

# Agenda

Introduction

Enhance customer value and new business profitability

Improve operational excellence

→ **Preserve the balance sheet and optimise in-force business**

# Balance sheet preserved and in-force business optimised in 2010

## Levers to manage in-force business

Release risk capital and optimise profit streams

Increase profit

Interest result

Cost result

Risk result

Other effects

## Selected initiatives per country

- Group**
- SST / Solvency II
  - ALM
  - Capital management
  - Reinsurance strategy

## Achievements so far

- ALM adjustments to improve SST
- Debt leverage reduced with no mid-term refinancing needs
- New internal reinsurance strategy in implementation
- Duration management in all units

- Switzerland**
- Optimise risk capital consumption
  - Adjust policyholder sharing



- SAA adjusted
- Risk capital preserving product line launched
- Policyholder sharing adjusted, ensuring sustainable interest rate margin

- France**
- Pricing adjustments
  - Active retention mgt. & shift to modern on in-force
  - Adjust policyholder sharing
  - Reduce level of financial guarantees on Euro funds



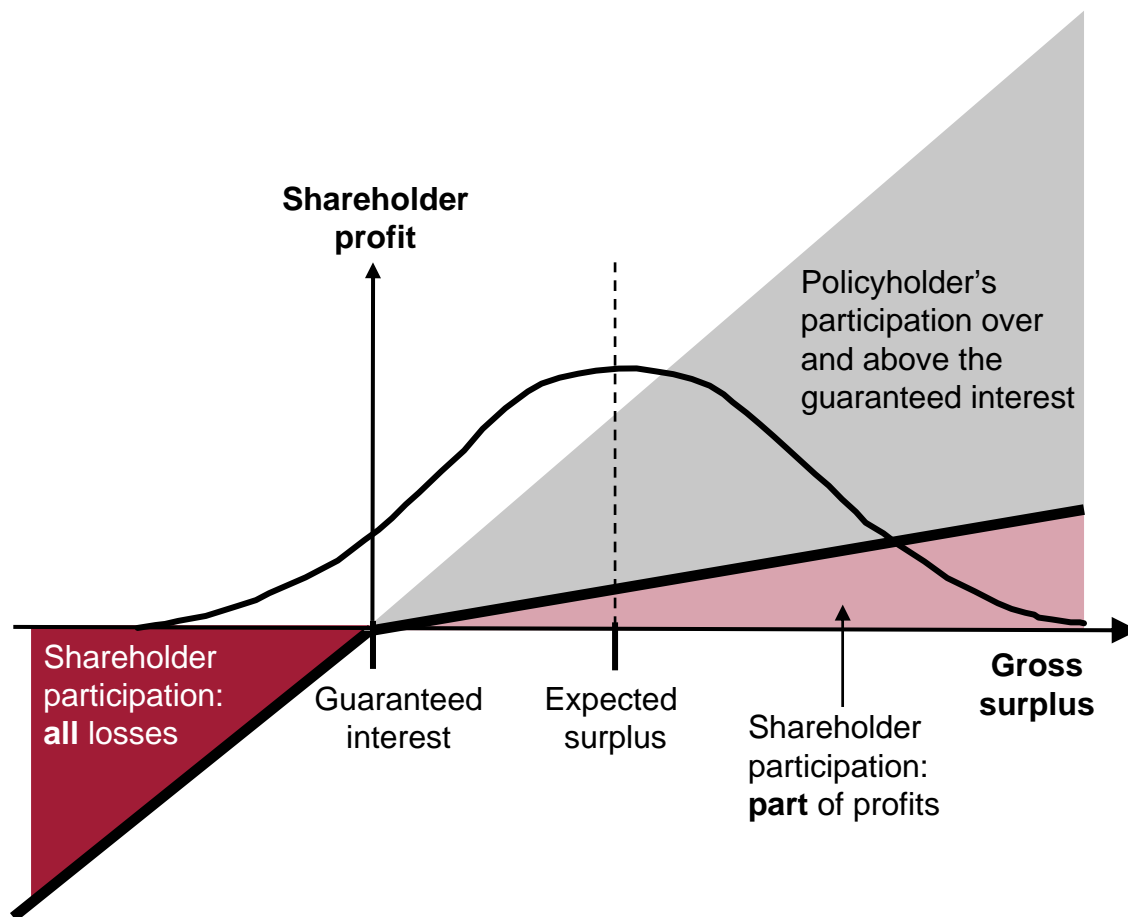
- Pricing to all business lines adjusted
- Active retention mgt. process introduced
- “Fourgous” campaigns and UL objective plan implemented
- Served rates reduced and segmentation of flagship products improved
- Safeguard clause introduced

- Germany**
- Adjust policyholder sharing
  - Optimise legal structure



- Policyholder sharing adjusted
- Unallocated RfB strengthened

# Value and risk management in the context of asymmetric shareholder/policyholder returns



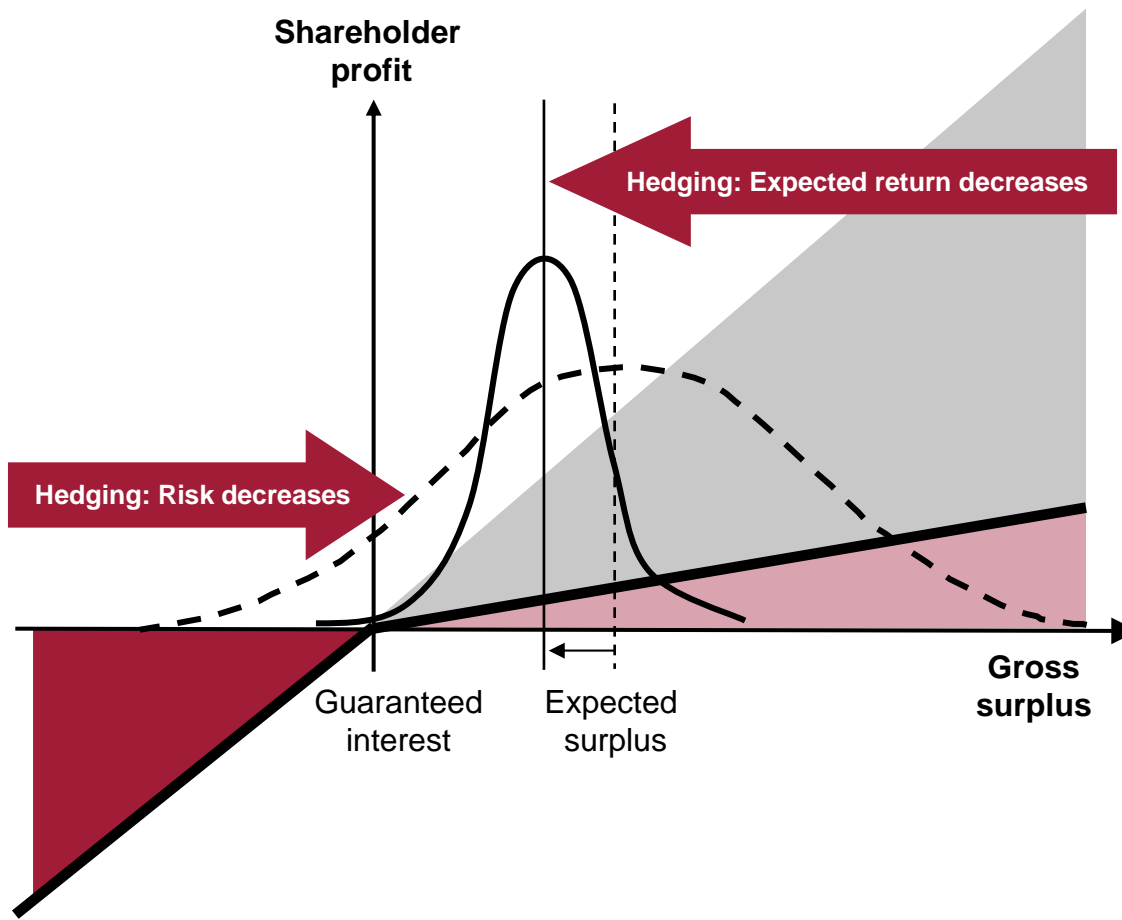
## Levers for value and risk management

- I **Asset side measures**
  - Adjust SAA, ALM and volatility of investment return
- II **Liability side measures**
  - Improve risk & cost margin
  - Build up policyholder buffers
  - Reduce policyholder participation
- III **Other measures**
  - Reduce dependency on investment return by pushing fee business

# I ALM and hedging reduce capital consumption while impacting expected investment returns



SwissLife

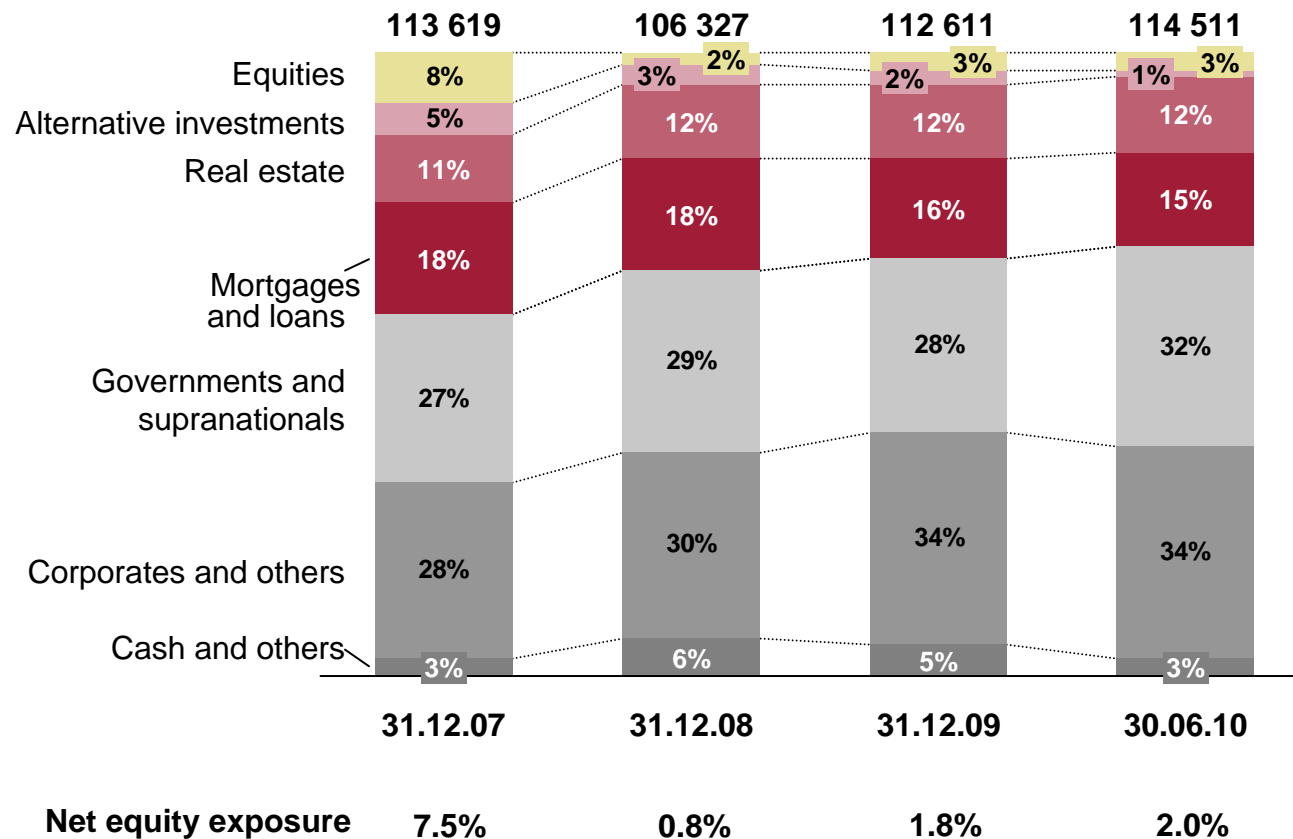


## Asset side measures implemented

- Investments in equities and hedge funds reduced and proceeds invested in bonds
- Equity exposure partly hedged
- Duration matching improved

# I Significant capital relief through continued de-risking achieved over the years

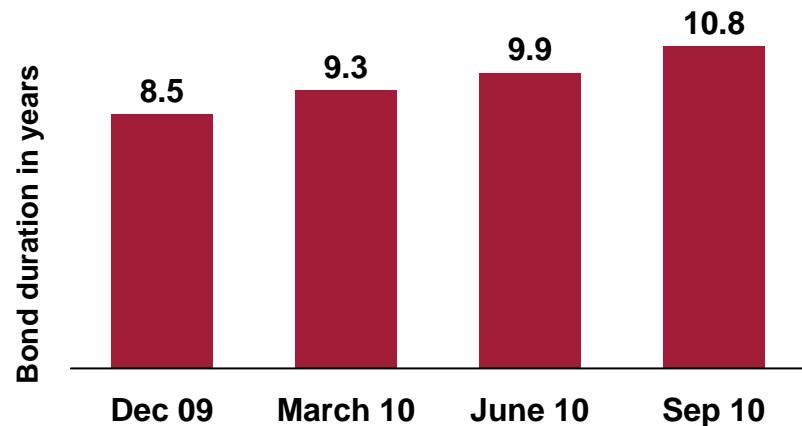
CHF million (fair value basis) insurance portfolio for own risk





# I Active duration management to further optimise capital consumption in 2010

## Overall

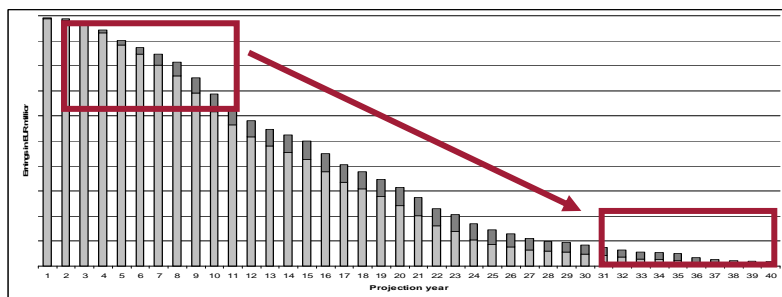


- Robust processes in place for Asset and Liability Management
- Lengthened asset duration to continue to match increased liabilities' duration caused by lower interest rates
- Duration gap is low at 0.4 years as per Q3

### 10 year swap rates in %

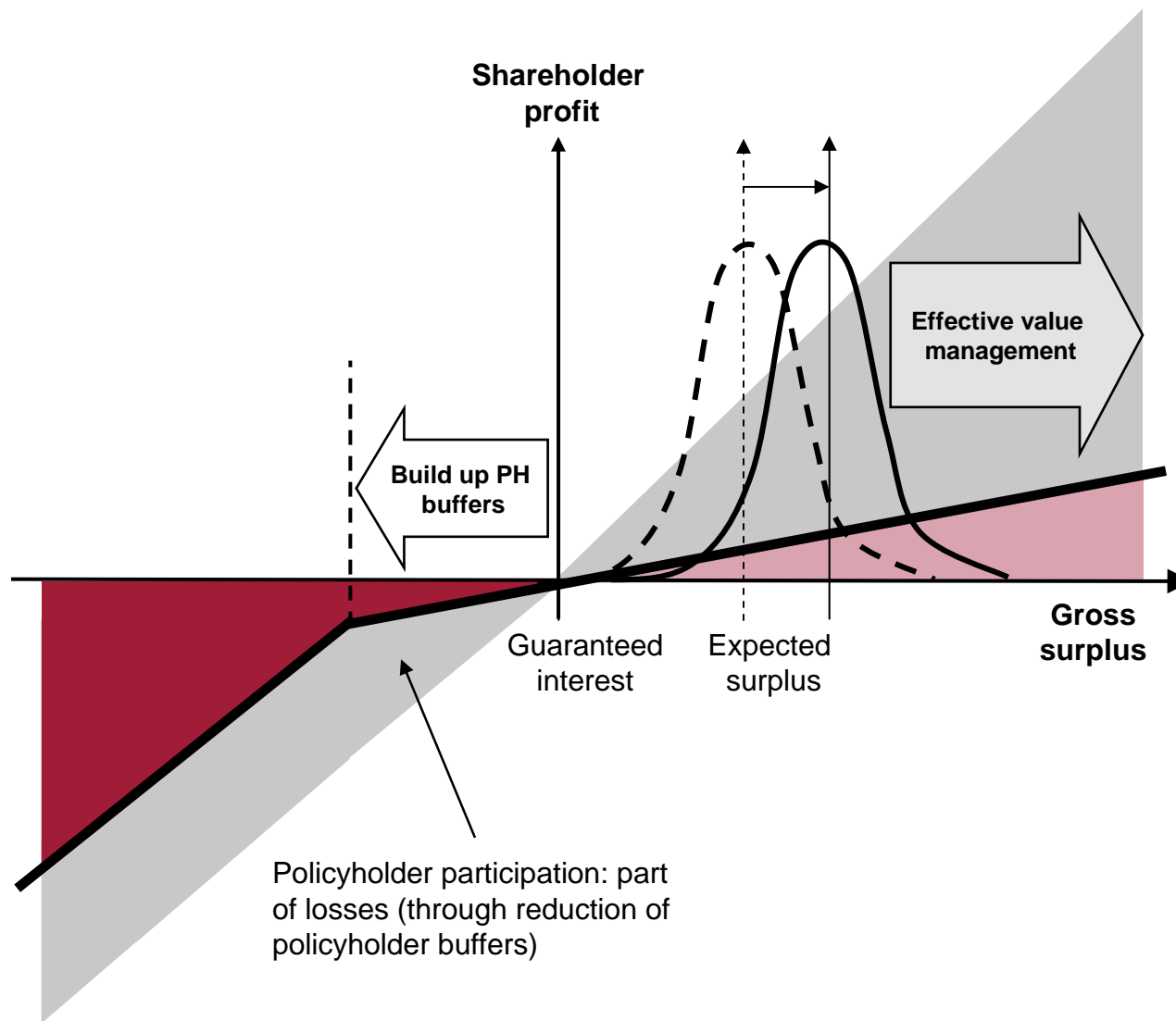
CHF	2.50	2.30	1.95	1.79
EUR	3.58	3.28	2.89	2.58

## Example Germany



- Duration lengthening
- Consideration of local statutory constraints
- Alignment of statutory asset returns and policyholder guarantees

# II Value management reduces dependency on investment income and builds buffers



### Liability side measures

- Technical result (cost and risk result) improved
- Policyholder buffers built up
- Policyholder sharing adjusted

# II Substantial value potential addressed with MILESTONE

Value tree

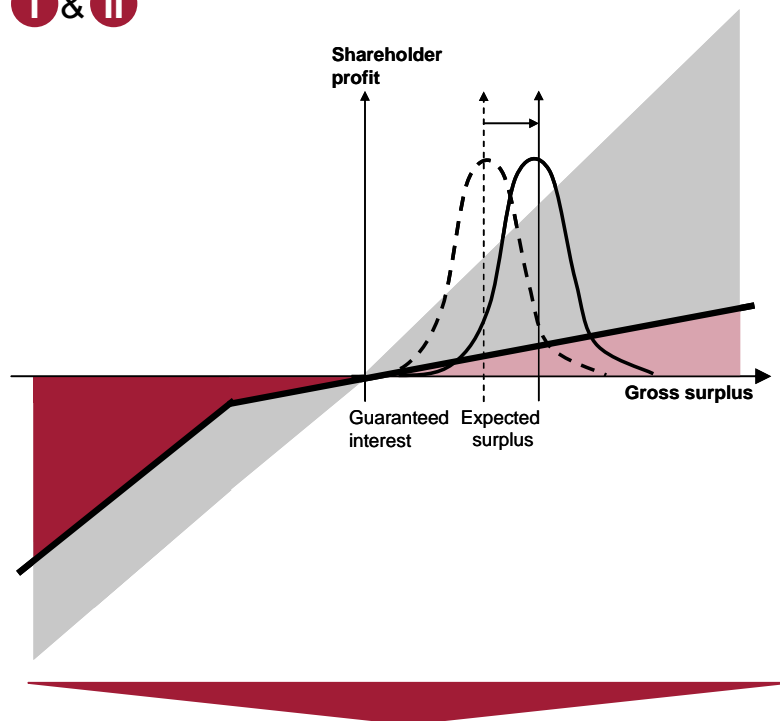
Sensitivity<sup>1)</sup>

Value of in-force business	Measure	Sensitivity <sup>1)</sup>		Major measures selected
		Change	Effect	
Value of in-force business	Reduce expenses	-10%	+409	<ul style="list-style-type: none"> <li>Relocation, reduction of offices, facility optimisation and simplification of legal structures</li> <li>Outsourcing of selected IT services</li> <li>Front office centralisation &amp; workflow optimisation</li> <li>Back office optimisation &amp; reorganisation of sub-units</li> </ul>
	Manage lapses	-10%	+165	<ul style="list-style-type: none"> <li>Customer management initiatives</li> <li>Lapse management process introduced in market unit France</li> </ul>
	Manage morbidity rates	+5%	+105	<ul style="list-style-type: none"> <li>Underwriting principles tightened</li> <li>Risk selection improved</li> </ul>
	Adjust PH participation	Not disclosed		<ul style="list-style-type: none"> <li>Policyholder sharing adjusted across units e.g. annuity bonus reduced</li> <li>Creation of service companies outside life business</li> </ul>

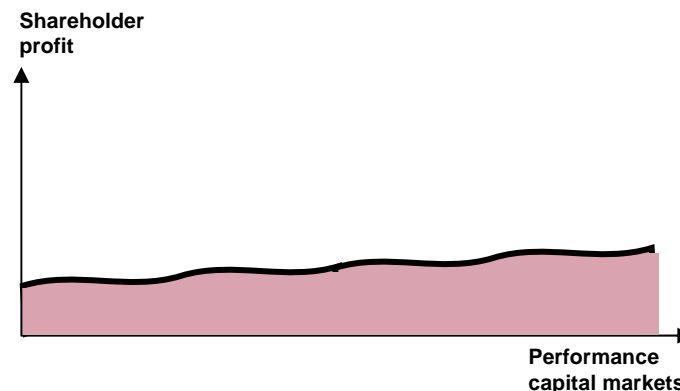
1) Based on disclosed 2009 MCEV, CHF million

# III Diversifying profit sources with fee income

I & II



III



Insurance business (mostly with profit sharing) with balanced income sources:

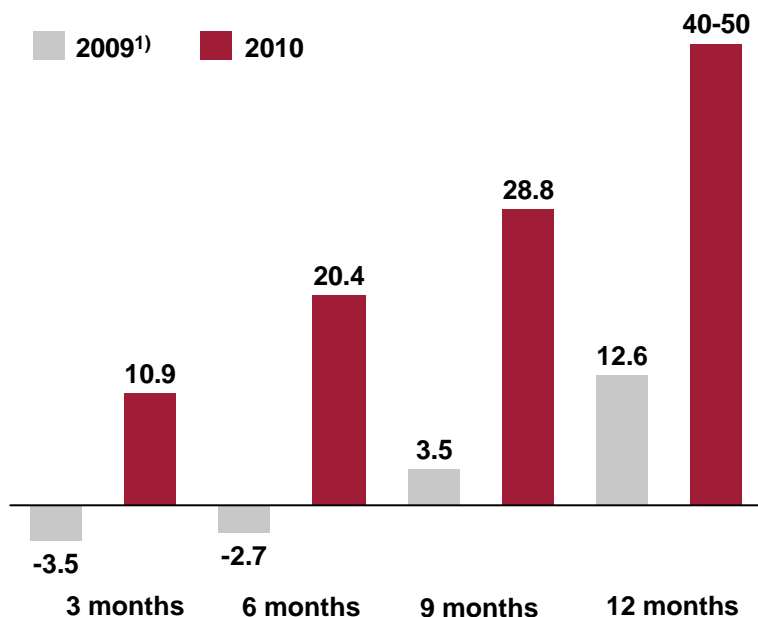
- Reduce relative importance of investment income
- Maintain good risk result
- Eliminate negative administration cost result

Stable fee income (without profit sharing):

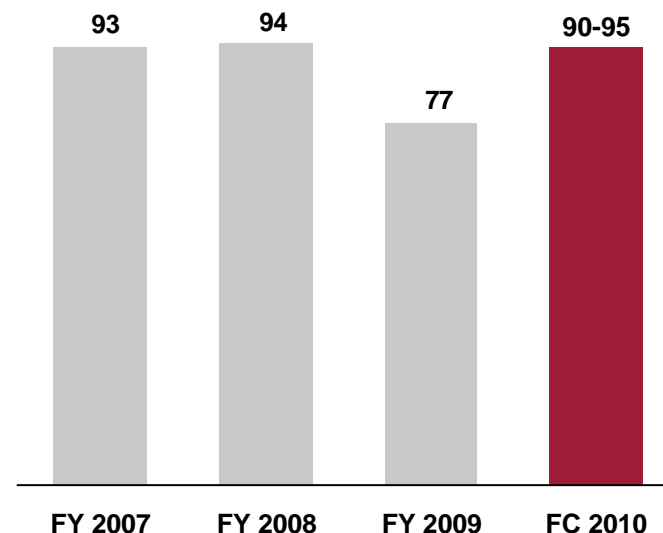
- AWD
- Investment Management
- Other fee businesses such as PPLI

# AWD and Investment Management as substantial fee generators

**AWD**  
EBIT in EUR million



**Investment Management**  
Segment result in CHF million



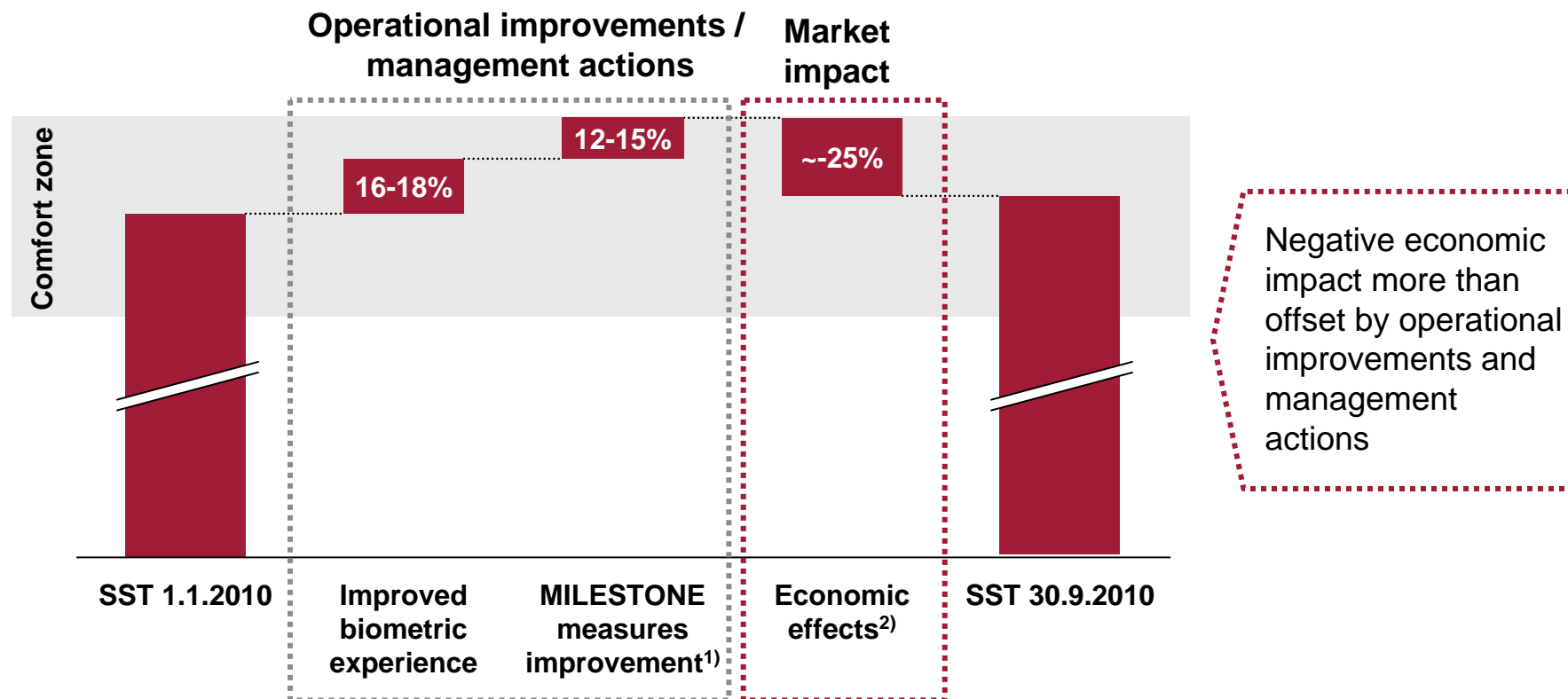
- AWD turnaround achieved
- EBIT margin significantly improved to 7.4% in Q3 2010
- Efficiency improvement is basis for profitable growth

- IM as stable profit contributor
- Investments in a new investment management platform offset

1) Excl. one-off and restructuring costs

# Swiss Life meets SST requirements, despite low interest rate environment

SST ratio Swiss Life AG, based on internal model

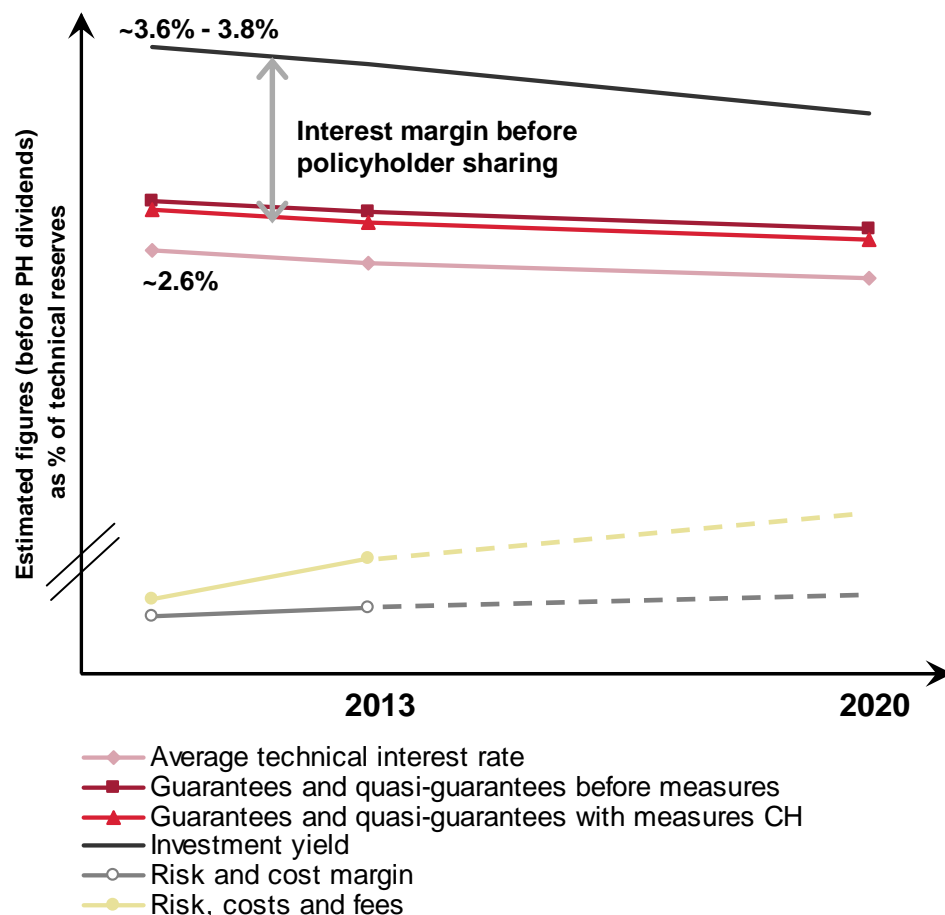


1) Incl. expense reductions and ALM measures

2) Incl. interest rates, spreads and currency effects

# Positive investment margin supports in-force business

Illustrative: Sustainable investment margin in a continuous low interest rate environment



- Substantial spread between investment yield and aggregate minimum guarantees based on current low yield environment
- Measures implemented help to secure spread
- Strong new business accelerates decrease of average technical interest rate

# Execution of MILESTONE will lead to increased earnings at reduced volatility

Insurance business (net PHP)	Ambition for change by 2012	YE 2009	FC 2010
Investment income	↓ Reduce relative importance	~95%	80 to 90%
Risk result	→ Maintain good risk result	~35%	20 to 30%
Cost result <sup>1)</sup>	↑ Eliminate negative admin. cost result	~-20%	-10 to -15%
<b>Fee business and other sources</b>	↑ Significantly increase profits	~-10%	~10%
<b>Total operating profit</b>	↑	100%	100%

**Ambition:**  
Investment income < 50%

1) Excluding restructuring charges 2009



## Key messages

▶ **With MILESTONE workstream 4 risk-return profile significantly improved and actions taken to protect investment margins:**

▶ **Assets de-risked and duration matching maintained**

▶ **Policyholder sharing adjusted and policyholder bonus reserves built up**

▶ **Earnings diversified and cost base reduced**

▶ **Diversification of profit sources to risk and fee businesses will further reduce earnings volatility**

▶ **Swiss Life is comfortably meeting the SST requirements**

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# Contact details and financial calendar

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## Financial calendar

Full-year results 2010	2 March 2011
Interim statement Q1 2011	3 May 2011
Annual General Meeting 2011	5 May 2011

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