Management summary in English of the “Solvency” chapter of the Swiss Life Financial Condition Report 2020

This management summary provides relevant solvency information for Swiss Life Group in English. The information listed in this summary is taken from the “Bericht über die Finanzlage 2020” chapter “Solvabilität” for Swiss Life Group. For additional information, please see “Bericht über die Finanzlage 2020”.

Please note that this summary is not intended to be a pure translation of the original text published in German. The original German text is binding.

Solvency of Swiss Life Group

SST ratio

Solvency of Swiss Life Group

CHF m	01.01.2020	Prior-year adjustment	**01.01.2021**
Risk-bearing capital	35 771		**38 760**
Target capital	19 506		**21 695**
Market value margin	3 906		**4 090**
A = risk-bearing capital – market value margin	31 865		**34 670**
B = target capital – market value margin	15 600		**17 605**
SST ratio (A/B) in %	204%		**197%**

The SST ratio of the Swiss Life Group was 197% as at 1 January 2021, a reduction of around 7 percentage points compared to the last reporting period. The target capital increased by CHF 2.2 bn compared to 1 January 2020 and amounts to CHF 21.7 bn. The risk-bearing capital increased by CHF 3.0 bn to CHF 38.8 bn.

The SST ratio is calculated as the risk-bearing capital less the market value margin divided by the target capital less the market value margin.

The market value margin is the cost of capital for the risk-bearing capital required to be held by the Group while fulfilling its insurance liabilities. It consists of two parts, one to cover the insurance risk and the other to cover the non-hedgeable market risk.

The abovementioned information on solvency (risk-bearing capital, target capital) corresponds to the reporting to FINMA and is subject to supervisory review.

SST model

Since 1 January 2019, Swiss Life has been calculating its SST ratio using the FINMA SST standard model with the Solvency II valuation curves for insurance units in the EU and company-specific adjustments to the market risk model that are approved by FINMA.

Risk-bearing capital

The risk-bearing capital comprises the core capital and the supplementary capital.

The supplementary capital consists of risk-absorbing capital instruments that can be allocated to the risk-bearing capital. In the case of Swiss Life this corresponds to the market value of the hybrid instruments.

The core capital comprises the market-consistent value of the assets minus the sum of the best estimate value of the insurance liabilities and the market-consistent value of the remaining liabilities. Planned dividends and capital repayments, treasury shares held directly by the Group at its own risk, intangible assets and latent property taxes are deducted, if they cannot be offset.

Risk-bearing capital

CHF m	01.01.2020	Prior-year adjustment	01.01.2021
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	33 161		**36 218**
Deductions	-1 158		**-1 154**
CORE CAPITAL	32 004		**35 063**
Supplementary capital	3 767		**3 697**
RISK-BEARING CAPITAL	35 771		**38 760**

The risk-bearing capital of Swiss Life Group increased by around CHF 3.0 bn from the prior-year level and amounts to CHF 38.8 bn as at 1 January 2021.

In addition to the positive business development, this change was due in particular to positive capital market developments. Parameter updates also had a small positive impact.

The following section analyses the change in the risk-bearing capital of the Swiss Life Group as of 1 January 2021 compared with the last report.

Reconciliation of risk-bearing capital of Swiss Life Group and Swiss Life Ltd

CHF bn	Swiss Life Group	Swiss Life Ltd
As of 01.01.2020	35.8	34.4
Regulatory changes	-0.2	-0.2
Business development	0.5	0.4
Parameter updates	0.2	0.3
Capital market development	2.5	2.4
Model changes	-	-
Share buyback	-	-
As of 01.01.2021	38.8	37.2

Regulatory changes

According to FINMA requirements, the Ultimate Forward Rate (UFR) is reduced by 15 basis points each year for the currencies CHF, EUR, USD and GBP, which reduces the risk-bearing capital.

Business development

The positive business development in 2020 increased the risk-bearing capital. The main driver was the expected operating result. This was partly offset by the dividend proposed for payment for the 2020 financial year at the Annual General Meeting on 23 April 2021.

Parameter updates

The experience-based update of the actuarial parameters along with additional updates increased the risk-bearing capital for the reporting period.

Capital market development

Capital market developments in 2020 were positive overall. The development of real estate, which exceeded expectations, and the development of interest rates contributed to the increase in risk-bearing capital. The higher spreads slightly reduced this positive effect on the risk-bearing capital.

Share buyback

In line with all other major listed banks and insurance companies in Switzerland, Swiss Life temporarily suspended the share buyback programme that started in March 2020. Swiss Life resumed the share buyback programme on 4 January 2021. The share buyback of CHF 0.4 bn was already fully deducted in the previous year and was therefore already included in the risk-bearing capital as of 1 January 2020.

Target capital

The required capital (target capital) is determined in consideration of possible losses over a time horizon of one year in unfavourable circumstances for the company.

This takes place in accordance with the FINMA SST standard model with company-specific adjustments to the market risk model. The modelling of the target capital did not change compared to the previous year. The company-specific adjustment allows for a refined determination of the market risk of those financial instruments, which the SST standard model treats in a simplified manner, e.g. derivatives.

Target capital

CHF m	01.01.2020	Prior-year adjustment	**01.01.2021**
Market risk	12 823		**14 607**
Insurance risk	3 353		**3 689**
Diversification	-2 398		**-2 623**
Credit risk	3 416		**3 623**
Market value margin and other effects on target capital	2 313		**2 398**
thereof market value margin	3 906		**4 090**
thereof other effects	-1 593		**-1 692**
TARGET CAPITAL	19 506		**21 695**

The target capital of the Swiss Life Group increased by CHF 2.2 bn compared to the previous year and amounts to CHF 21.7 bn, mainly due to developments in the market risk.

Reconciliation of target capital of Swiss Life Group and Swiss Life Ltd

CHF bn	Swiss Life Group	Swiss Life Ltd
As of 01.01.2020	19.5	17.8
Change of market risk	1.8	1.7
Change of credit risk	0.2	0.2
Change of insurance risk	0.1	0.1
Change of market value margin and other effects	0.1	0.1
As of 01.01.2021	21.7	19.9

Change of market risk

The increase in market risk was mainly due to capital market developments, especially the massive jumps in credit spreads in March/April 2020, and the resulting sharp increase in spread volatilities. In addition, the lower interest rates as well as the business development led to a higher market value of the insurance assets. These effects were partially offset by the increase in diversification between the components of market risk.

Components of the market risk

CHF m	01.01.2020	Prior-year adjustment	01.01.2021
Market risk of interest rates	3 226		**3 923**
Market risk of spreads	6 445		**7 789**
Market risk of currency exchange rates	3 369		**3 537**
Market risk of equities	3 014		**3 168**
Market risk of real estate	5 139		**5 901**
Market risk of participations	800		**791**
Diversification effects of market risk	-9 171		**-10 501**
MARKET RISK	12 823		**14 607**

Change of credit risk

The increase in credit risk, which is based – like in the previous year – on the Basel III standard was primarily due to lower interest rates compared to the beginning of the year, which led to a higher market value of insurance assets and thus to higher potential losses.

Change of insurance risk

The reported change in insurance risk capital includes the change in diversification with market risk. The slight increase was mainly due to the lower EUR interest rates, which led to an increased insurance risk in the foreign market units. This effect was partially offset by the increased diversification with market risk.

Components of insurance risk

CHF m	01.01.2020	Prior-year adjustment	01.01.2021
Insurance risk of mortality	303		**420**
Insurance risk of longevity	2 566		**2 808**
Insurance risk of disability	1 417		**1 605**
Insurance risk of reactivation rate	552		**642**
Insurance risk of costs	1 461		**1 592**
Insurance risk of lapses	370		**402**
Insurance risk of option exercise	310		**351**
Diversification effects of insurance risk	-3 628		**-4 132**
INSURANCE RISK	3 353		**3 689**

Change of market value margin and other effects

The increase in the market value margin was driven in particular by the low interest rate environment and the increased insurance risk. The increase in market risk due to capital market developments also had a direct impact on the increase of the market value margin.

General note on Swiss Life Ltd

Swiss Life Ltd is the major subsidiary of Swiss Life Holding and plays a major role within the Swiss Life Group.

The SST ratio of the Swiss Life Group is therefore largely driven by Swiss Life Ltd, while effects from other companies only exert a minor additional impact. The SST solvency model of Swiss Life Ltd corresponds to that of the Swiss Life Group.

The solvency ratio of Swiss Life Ltd as of 1 January 2021 amounts to 209%.