SwissLife

Summary in English of the "Solvency" chapter of the Swiss Life Financial Condition Report 2023

This summary provides relevant solvency information in English for the Swiss Life Group. The information in this summary is taken from the "Bericht über die Finanzlage 2023" chapter "Solvabilität" for the Swiss Life Group. For additional information, please see "Bericht über die Finanzlage 2023".

Please note that this summary is not intended to be a literal translation of the original authoritative report published in German. In case of any discrepancy between the English and German texts, the full German report is prevailing.

Solvency of the Swiss Life Group

SST ratio

Solvency of the Swiss Life Group

CHF m	01.01.2023	Prior-year adjustment[1)]	01.01.2023 (adjusted)	**01.01.2024**
Risk-bearing capital	33 561	-3 139	30 421	**29 368**
Target capital	17 258	-3 139	14 119	**13 884**
SST ratio in %	215%		215%	**212%**

1) Deduction of the market value margin of CHF 3 139 m in accordance with the revised Insurance Supervision Ordinance (ISO)

As of 1 January 2024, the revised Insurance Supervision Ordinance (ISO) came into force. The market value margin is now shown in the market-conform value of the insurance liabilities and is therefore reflected in the risk-bearing capital. In previous years, the market value margin was presented as a component of the target capital in line with the applicable ISO at the time. The valuation principles for the market value margin remain unchanged with the revised ISO.

In accordance with the revised ISO, the figures of the comparative period as of 1 January 2023 have been adjusted accordingly, as shown in the “adjusted” column in the tables in this report.

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 SST ratio of the Swiss Life Group was 212% as at 1 January 2024, a decrease of 3 percentage points compared to the prior year. The target capital decreased by CHF 0.2 bn compared to 1 January 2023 (adjusted) and amounted to CHF 13.9 bn. The risk-bearing capital decreased by CHF 1.1 bn from the adjusted prior-year level to CHF 29.4 bn.

The SST ratio is calculated as the risk-bearing capital divided by the target capital. In the prior year periods, before the revised ISO came into force on 1 January 2024, the SST ratio was calculated as the risk-bearing capital less the market value margin divided by the target capital less the market value margin.

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.

As of 1 January 2024, the revised ISO came into force. The revision has no material impact on the SST model and ratio of Swiss Life. The market value margin is now shown in the market-consistent value of the insurance liabilities and is therefore reflected in the risk-bearing capital. In previous years, the market value margin was presented as a component of the target capital. The SST ratio does not change because the market value margin was already deducted in the numerator and denominator. Other changes due to the ISO revision have no material impact on the key figures of the SST in this report.

Risk-bearing capital

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

The supplementary capital consists of risk-absorbing capital instruments. In the case of Swiss Life this corresponds to the market value of the outstanding hybrid (or Tier 2) instruments that are included in the risk-bearing capital as supplementary capital until repayment in accordance with the transitional clause, but for a maximum of ten years after the revised ISO came into force on 1 January 2024.

The core capital comprises the market value of the assets minus the sum of the best estimate value of the insurance liabilities and the 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 and transfer taxes (if they cannot be offset) are deducted.

Tier 1 instruments may be included in the core capital as of 1 January 2024. Swiss Life had no tier 1 instruments outstanding as of 1 January 2024.

Risk-bearing capital

CHF m	01.01.2023	Prior-year adjustment[1]	01.01.2023 (adjusted)	**01.01.2024**
Excess of assets over liabilities	32 147	-3 139	29 008	**27 847**
Deductions	-1 273		-1 273	**-1 163**
CORE CAPITAL	30 874	-3 139	27 735	**26 685**
Supplementary capital	2 686		2 686	**2 684**
RISK-BEARING CAPITAL	33 561	-3 139	30 421	**29 368**

[1] Deduction of the market value margin of CHF 3 139 m in accordance with the revised Insurance Supervision Ordinance (ISO)

The risk-bearing capital of the Swiss Life Group decreased by CHF 1.1 bn from the adjusted prior-year level and amounted to CHF 29.4 bn as at 1 January 2024.

The change in risk-bearing capital (after deducting the market value margin in accordance with the revised ISO) is mainly due to the negative capital market developments, in particular due to lower interest rates and negative fair value changes of real estate. The change in deductions was due to the increase in the planned dividend payment compared to the prior year (increase of CHF 0.1 bn to CHF 1.0 bn) and due to the share buyback programmes.

As part of the CHF 1 bn share buyback programme, which ran until May 2023, shares worth CHF 0.3 bn were repurchased and deducted accordingly from the risk-bearing capital as of 1 January 2023. As announced on 6 September 2023, Swiss Life started an additional CHF 300 m share buyback programme. Until 31 December 2023, shares worth about half of the CHF 300 m were repurchased. This amount of repurchased shares was reflected in the excess of assets over liabilities, while deductions were reduced to the remaining amount of shares to be repurchased (around CHF 150 m).

The supplementary capital was almost stable. It comprised a perpetual, EUR-denominated hybrid bond (private placement) with market value of CHF 195 m as of 1 January 2024. In April 2024, Swiss Life opted not to call the bond. Swiss Life may decide to call the bond at its own discretion on the next possible call date in 2029 or at intervals of five years thereafter. A further perpetual hybrid bond in the amount of CHF 425 m has a call date on 25 September 2024. This hybrid bond was allocated to the supplementary capital at market value of CHF 422 m as of 1 January 2024.

The following section analyses the change in the risk-bearing capital of the Swiss Life Group as at 1 January 2024 compared with the last report.

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

CHF bn	Swiss Life Group	Swiss Life Ltd
As at 01.01.2023	33.6	32.8
As at 01.01.2023 after deduction of the market value margin (adjusted)	30.4	29.7
Regulatory changes	-0.2	-0.2
Business development	2.0	1.6
Parameter updates	-0.2	-0.2
Capital market development	-2.4	-2.1
Share buyback	-0.3	-
As at 01.01.2024	29.4	28.8

Regulatory changes

In accordance with the revised ISO, the market value margin was deducted from the risk-bearing capital.

According to FINMA requirements, the ultimate forward rate (UFR) was reduced by 35 basis points for CHF and by 35 basis points for EUR, which reduced the risk-bearing capital.

Business development

The positive business development in 2023 increased the risk-bearing capital. This was partly offset by the dividend proposed for payment for the 2023 financial year at the Annual General Meeting on 15 May 2024.

Parameter updates

The experience-based update of the actuarial parameters along with additional updates decreased the risk-bearing capital.

Capital market development

Capital market developments in 2023, such as the decrease in interest rates and the negative fair value changes of real estate, led to an overall reduction in risk-bearing capital. This was further enhanced by the strengthening of the Swiss franc against the Euro. The reduction was partly offset by positive equity markets and lower credit spreads.

Share buyback

The CHF 300 m share buyback programme, announced on 6 September 2023, is fully deducted from the risk-bearing capital.

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 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.

In accordance with the revised ISO, the market value margin is reported as part of the market-conform value of the insurance liabilities and thus no longer considered in the target capital.

Target capital

CHF m	01.01.2023	Prior-year adjustment[1)]	01.01.2023 (adjusted)	01.01.2024
Market risk	12 698		12 698	**12 349**
Insurance risk	2 864		2 864	**3 092**
Credit risk	2 749		2 749	**2 747**
Diversification	-2 533		-2 533	**-2 684**
Market value margin and other effects on target capital	1 480	-3 139	-1 659	**-1 620**
of which market value margin	3 139	-3 139	-	**-**
of which other effects	-1 659		-1 659	**-1 620**
TARGET CAPITAL	17 258	-3 139	14 119	**13 884**

[1)] Deduction of the market value margin in accordance with the revised Insurance Supervision Ordinance (ISO)

The target capital of the Swiss Life Group decreased by CHF 0.2 bn compared to the adjusted previous year and amounted to CHF 13.9 bn.

The following section analyses the change in the target capital of the Swiss Life Group as at 1 January 2024 compared with the last report.

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

CHF bn	Swiss Life Group	Swiss Life Ltd
As at 01.01.2023	17.3	15.9
Change in market risk	-0.3	-0.3
Change in insurance risk	0.2	0.2
Change in credit risk	-0.0	-0.0
Change in diversification	-0.2	-0.2
Change in market value margin and other effects	-3.1	-2.8
As at 01.01.2024	13.9	12.8

Change in market risk

The decrease in market risk was mainly due to lower market risk of real estate caused by negative fair value changes and lower market risk of spreads. This was partly offset by a higher market risk of equites due to the positive asset valuation development. The diversification effect within market risk was higher, driven by the higher market risk of interest rates.

Components of the market risk

CHF m	01.01.2023	Prior-year adjustment	01.01.2024
Market risk of interest rates	2 481		**2 863**
Market risk of spreads	4 555		**4 383**
Market risk of currency exchange rates	2 584		**2 558**
Market risk of equities	3 575		**3 628**
Market risk of real estate	6 314		**6 026**
Market risk of participations	491		**546**
Diversification effects of market risk	-7 302		**-7 655**
MARKET RISK	12 698		**12 349**

Change in insurance risk

The increase of the insurance risk can be explained mainly by the decrease in interest rates.

Components of insurance risk

CHF m	01.01.2023	Prior-year adjustment	01.01.2024
Insurance risk of mortality	461		**445**
Insurance risk of longevity	1 891		**2 080**
Insurance risk of disability	1 289		**1 384**
Insurance risk of reactivation rate	459		**470**
Insurance risk of costs	1 258		**1 356**
Insurance risk of lapses	757		**743**
Insurance risk of option exercise	226		**259**
Diversification effects of insurance risk	-3 477		**-3 645**
INSURANCE RISK	2 864		**3 092**

Change in credit risk

The credit risk was nearly stable as effects from lower interest rates and lower credit spreads were fully offset by lower currency exchange rates.

Change in diversification

The increase in diversification effects in absolute figures was mainly due to the higher insurance risk, which was largely diversified away within the target capital.

Change in market value margin and other effects

In accordance with the revised ISO, the market value margin is no longer reflected in the target capital.

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 at 1 January 2024 amounted to 225%.