"In times of crisis, security is valued more highly."

Bruno Pfister has served as Swiss Life's Group Chief Executive Officer since May 2008. In this interview he explains how the financial market crisis has impacted corporate strategy and results, and why the prevailing market environment also offers opportunities for a focused pension provider such as Swiss Life.

"We are convinced, that the life and pensions business will grow over the long term."

Mr Pfister, three years ago you were travelling parts of the Silk Road. Which do you think was more difficult: Steering Swiss Life through the financial crisis or making it along the Silk Road from Europe to China 500 years ago?
It's hard to say. Communication channels at the end of the Middle Ages were far inferior to those available today. It was impossible to reliably assess the risks involved in journeying from Europe to China. Nobody knew what could happen on the Silk Road.

But the journey through the 2008 financial year was also anything but smooth.
That's true. The capital markets took a major beating in 2008, and Swiss Life did not escape unscathed. In contrast to the crisis six years ago, practically all asset classes have been affected. It wasn't possible to predict the full extent and the consequences of this development.

Several banks and insurance companies were not able to survive this crisis without help. What did Swiss Life do differently?
Those insurance companies that concentrated on their core business also had risks under control in 2008. We kept within our available risk capacity at all times. As the situation intensified in the second half of the year, our disciplined approach to risk management enabled us to take measures and protect our capital rapidly, thus ensuring the company's survival.

The subject of risk leads us to targeted returns. Were return expectations too high in recent years?
On the basis of our business model and taking market expectations into account, we set ourselves a target of 12% return on equity. This is not at all excessive. The crisis is now forcing everyone to rethink their return expectations, however.

Results are disappointing due to the huge decline on the financial side. In what areas has the Swiss Life Group nevertheless made progress in 2008?
Most certainly in product management. In Germany we launched our first flexible product with variable guarantees – also known as variable annuities – and have built up a product platform in Luxembourg. In the individual markets we have made progress with new products, and have also improved the product development process. We now focus much more closely on real client requirements, instead of being swayed by technical considerations as we were so often in the past.

What about distribution?
The cooperation with AWD is beginning to bear fruit. By realigning two products to the needs of AWD target clients in the German market we have achieved pleasing results. Admittedly this is a small segment, but the experiences gained will help us with the further development of cooperation. We have also developed a new product in Switzerland and successfully introduced it at AWD. These first steps show how the cooperation with AWD can improve our products, making them easier to sell, not just by AWD, but also by other distribution channels.

"In the current environment, solutions that offer security and limit risks are valued more highly."

By acquiring the AWD Group Swiss Life significantly increased its distribution capacity overnight.
This has radically changed our organisation. A few years ago only one in five employees worked in distribution. Today, including the independent advisors that work for AWD, every other employee is part of distribution. The majority of our employees now have direct client contact.

You have suffered a setback in the international insurance business for high net worth individuals, your private placement life insurance business. Was this due exclusively to the financial market crisis?
The collapse of the markets, particularly in October 2008, greatly unsettled wealthy clients. This is understandable; this client segment lost a great deal of money. But another reason is the legal uncertainties in Germany – an important market for us. We have since realigned our products to the new conditions, however.

How do you assess the potential for this area of business?
Wealth management for international private clients will undergo significant changes in the coming years. I therefore see great opportunities for our range of products and services. I believe that this business will return to growth. We have therefore increased our global reach with a branch office in Singapore and a sales location in Dubai. The first few weeks of 2009 make me optimistic.

Premium volume of the Swiss Life Group fell a total of 13% to CHF 18.5 billion. Why was that?
When making comparisons with the previous year you must bear in mind that the first half of 2007 also includes premium volume of about CHF 1.9 billion from the French ERISA companies that we sold. Without the ERISA component, the fall in premiums is only 4%. The welcome premium growth in France could not quite offset negative premium trends in the other markets, although we were able to defend our leading position in Switzerland. In Germany the single premium business declined significantly in 2008 due to the market environment, but we were very successful with policies carrying periodic premiums and concluded over 50 000 policies for the first time in our history.

"By acquiring AWD we plan to diversify our income stream and to expand our distribution capacity."

What impact will the disappointing financial results have on strategy? Should we expect adjustments?
Swiss Life's strategy is based on our conviction that the life and pensions business will grow over the long term, and to a greater extent than the rest of the economy. There are two main reasons for this: demographic developments and the increasing pressure on public-sector finances in many countries. As a result, the state-financed part of retirement provision will become relatively less significant, while the privately-financed part will need to be strengthened if the standard of living is to be more or less maintained after retirement. The current market environment does not fundamentally change this state of affairs.

And what does this mean for the strategy of Swiss Life?
We expect pension gaps to widen in the coming years, thereby increasing demand for pension provision. With this in mind, our strategy is the right one and there is no reason to change anything. The financial crisis restricts our financial flexibility, however. As a result, our growth targets have faded into the background and capital protection has become the highest priority in this phase.

Swiss Life's distribution strategy and the acquisition of AWD is still criticised in public. How do you respond?
I can understand the criticism insofar as we must now produce numbers and facts over the next few years to prove that the acquisition was the right move. By acquiring AWD we plan to diversify our income stream and to expand our distribution capacity in Germany in particular in order to exploit the potential of Swiss Life more effectively. In Switzerland, AWD enables us to take a large step towards our vision of multichannel distribution. AWD also gives us access to markets in which we are currently not represented, such as those of Central and Eastern Europe. And thanks to AWD we now have access to additional market intelligence with regard to client requirements and product trends. AWD also benefits, as Swiss Life helps AWD to make its own business more efficient and to increase revenue. The experiences of the past few months have shown that the perspectives for adding value with this partnership are still intact.

You mentioned the rapid expansion of distribution, but the biggest and best distribution network can only function if it has competitive products to sell. Where do you stand in this regard?
Innovativeness improved significantly in 2008 in particular. Product management is now much more closely aligned to client needs. The expertise provided by AWD helped here, as the success stories in Germany and also in Switzerland demonstrate. The potential of the cooperation between Swiss Life and AWD will not be realised overnight, however. It will take time, because we must take care not to undermine AWD's successful business model of independent financial advice, but rather to strengthen it. This requires a cautious and carefully thought out approach.

Your principal markets are quite saturated. Does this impose limitations?
The various analyses we have performed show that Europe is the world region where the life insurance business is still growing most in absolute terms. Growth may be lower here in percentage terms than in other regions, but because the base is so much larger the European life insurance market is still attractive, even in terms of growth. And as I already mentioned, demand for pensions and privately-financed pension solutions will grow significantly.

So you could say that bad news is good news for insurance companies?
I'm quite sure that financial crises in particular heighten clients' understanding of risks. In the current environment, solutions that offer security and limit risks are valued more highly.

And finally the most difficult question: Have you ever tried to explain your job to your son?
No, not yet. I think it would be difficult to explain the concept of life insurance to a five-year-old. It would be too much for both him and me. He knows where I work, however, and visits me every now and then.

And if he were to ask you?
Then I would tell him that we make people's lives and the future more secure. And with the protection that we guarantee for him, his friends and their parents and relatives, we give a lot of people a bit of security and hope.

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