

## “The recipe for success: hard work”

Bruno Pfister, CEO of the Swiss Life Group, looks back on a successful 2010. He sees the operational improvements, higher earning power and undiminished strong customer presence as just one stage victory along the challenging road to 2012. For him it is clear that there can be no sustainable success without employees' engagement.



Swiss Life put in a strong performance for 2010. What do you personally see as its biggest success? I was particularly happy with one figure that didn't seem to have a high priority for financial analysts or the media. A survey last autumn found that 56% of our employees are highly committed to our company, and are ready to go the proverbial “extra mile”. In other words, Swiss Life's employees show a level of engagement above the average for the European financial industry. This is all the more significant because the challenging market and changes in the company in recent years have demanded a considerable amount of professionalism, flexibility and engagement from all our employees. I am proud of them.

In what sense? They represent Swiss Life and hold the key to market success. With our MILESTONE revitalisation programme, we are ensuring that Swiss Life will sustainably boost its competitiveness and achieve profitable growth. It is entirely thanks to our employees' engagement that we have made such great progress with MILESTONE. The programme has already changed the way we run our business. Our employees played a major role in bringing about these changes, and often initiated them. This deserves the greatest recognition.

With a doubling of profits to CHF 560 million, you and your teams have delivered a strong performance. Will you achieve the 2012 goals earlier than planned? Of course we are delighted with the good result. As the management team, however, we must be aware that the figures are no more but also no less than an initial stage victory, important though it may be. The disciplined implementation of our plans and resolute reduction of costs are now paying off. But there are still a few challenges lying ahead on the path we have taken with MILESTONE. And we also do not expect the markets to provide us with much of a tailwind in the year ahead. Our goals for 2012 continue to present a challenge – so we see no reason to adjust them now.

“Swiss Life’s employees show a level of engagement above the average for the European financial industry. This is all the more significant because the challenging market and changes in the company in recent years have demanded a considerable amount of professionalism, flexibility and engagement from all our employees.”

Which figures best reveal the progress Swiss Life has made? Besides the notable rise in income compared with the previous year, I am particularly happy with another figure: The new business margin was raised from the previous year’s 0.9% to 1.4%. And this despite the negative impact of lower interest rates and the weakening of the euro against the Swiss franc. The cost reductions and the development of a systematic approach to margin management were mainly responsible for this. An outstanding achievement.

Investors take a sceptical view of the insurance industry and of life insurers in particular. Why is this? There is no doubt that the repercussions of the financial crisis are still being felt. The fact that the insurance industry came through the crisis reasonably well has not eradicated investor scepticism. The relatively low stock market valuation of life insurance companies is due to two factors. One is the historically low level of interest rates. This dulls the appetite for life and pensions products and makes it very

difficult to generate appropriate investment returns without taking on too many risks. In addition, there are uncertainties about how the new solvency regulations for companies will be implemented. In Switzerland, this refers to the Swiss Solvency Test (SST), and in Europe, Solvency II. Investors do not like uncertainty.

Swiss Life satisfies the SST. What’s the problem? In principle, we welcome the introduction of the SST. Compared to the previous rules, under Solvency I, it definitely represents progress. It is more comprehensive and more explicit on how to assess a company’s risk capacity. Nevertheless, we do not yet agree with the approach taken by the regulators to the SST. Our views are not fundamentally different, but the calibration of the model is an issue. Some of the valuation approaches do not make sense. Also, its launch would seem to be a little premature. The counterpart to the SST at the European level, Solvency II, will not be introduced until 2013, at the earliest. This puts the Swiss insurance industry at a disadvantage.

Is it not true that the risk to the customer is reduced by having a stricter SST? Absolute security is an illusion. More stringent regulations do not automatically mean a more secure system. For instance, if you want to get absolute security in aviation, you need to ground all the planes. Exaggerated regulation could force private insurance out of certain lines of business, because the economic rewards are gone. Private insurers like Swiss Life have an important role to play in society. Our solutions offer our clients protection for such risks as death, disability and longevity. If we stopped offering this possibility, these risks would not vanish from the system. Instead, there would be an even greater risk burden on the individual. Even on those unable to bear the risk themselves. This is how social problems arise, which ultimately have to be resolved by the public as a whole. By this I mean the taxpayers.

AWD had already returned to the profit zone at the end of 2009. Last year provided confirmation. What’s the formula for success? AWD delivered a strong performance in 2010. This can be seen in the company’s earning power and its operational improvements. In this regard, AWD is a step ahead of the competition among financial services providers. And surveys show that customers also have a high regard for AWD. AWD is on target. What the new

management has accomplished in the last two years deserves the greatest respect. The formula for success is simple: hard work and a systematic approach.

**“Absolute security is an illusion. More stringent regulations do not automatically mean a more secure system. For instance, if you want to get absolute security in aviation, you need to ground all the planes.”**

**Still, AWD keeps getting a bad press. How come?** It is not today's AWD which is attracting the bad headlines. These refer far more to transactions from years ago involving investments which were sold in the nineties and which did not perform as expected. Allegations made in Austria that AWD provided misleading advice are unfounded. This has already been confirmed in various court cases. AWD is regularly honoured by independent institutes for its service and the quality of advice it provides. One of the most highly recognised surveys in the German market recently gave AWD an above-average rating for customer satisfaction and an outstanding price-performance ratio. Moreover, AWD recently earned a top ranking in “Germany's greatest service survey of all time”. AWD was found to be offering the best customer service of all the financial services providers.

**How will Swiss Life ensure its success in the years ahead?**

We will continue to rely on the disciplined execution of our strategy and goals. Swiss Life has great opportunities in the life and pensions market. The most important trends which play a role in this regard remain unchanged. For one thing, with a rapidly ageing population, pension solutions are gaining in significance. For another, states are increasingly unable to finance pension systems to support their citizens after retirement. The gap has to be filled by private pension solutions. That's our market, and it's where we want to further expand our position. We aim to become a leading international specialist for risk, life and pensions solutions. We are committed to helping our clients create a financially secure future. For life.