

Strategy and Markets

2010 was a challenging year due to persistently low interest rates and falling euro exchange rates, despite the fact that the financial crisis had given way to global economic recovery. The life insurance market proved resilient in this environment and Swiss Life further improved its market position during 2010. Systematic implementation of the MILESTONE revitalisation programme enabled the Group to become more profitable and more competitive and to successfully develop its positioning as a leading international specialist for risk, life and pensions solutions.

2010 was a challenging year economically, characterised by the debt crisis of certain European countries and the resulting stabilisation packages. As a result, the euro depreciated against all leading currencies, interest rates plummeted to record lows in Switzerland and Germany, and stock markets were correspondingly volatile. Against this background, performance of the life insurance markets in which Swiss Life operates was solid in 2010.

The Swiss life insurance market showed a slight upturn in growth of 2%. While the prevailing economic situation had a positive impact on the group insurance market, individual life business lost growth momentum, with premium volume declining by 6%.

In the life insurance market in France, the positive growth trend of the previous year continued, with growth of 4%. Premium volume of unit-linked life insurance products grew by 7%, for the first time since 2006.

The German life insurance market also saw 6% growth, well above the European average. The chief contribution here was made by single-premium contracts for immediate and deferred annuities, as well as capitalisation products.

The market for insurance solutions for high net worth individuals, which Swiss Life addresses with its cross-border business, also experienced positive growth.

MARKET POSITION –Diversified business portfolio as a sound foundation – Swiss Life is one of the top ten insurers in the European life insurance market. In addition to its domestic market of Switzerland, it operates in France and Germany with subsidiary companies and branch offices. Swiss Life also pursues cross-border business which, with locations in Liechtenstein, Luxembourg, Singapore and Dubai, benefits heavily from the local growth momentum.

As one of the leading life insurers in the Swiss domestic market, Swiss Life offers a wide range of corporate and personal solutions for all life and pension requirements and every risk situation. With a 19.5% market share, Swiss Life is the market leader in the private client segment. Its share of the more heavily concentrated group life segment is 29.2%, putting it in second place. The shift in new business towards modern life and pensions solutions and risk products, the reduction in the cost base and the expansion of multichannel distribution will continue to be given very high priority in 2011.

Swiss Life in France has been growing at well above the market average in both the life and health insurance sectors for years now. With a market share of 1.6%, the company is a niche player in the French life insurance market. The “private insurer” model helps it to benefit from synergies between insurance company and bank, and enables it to maintain a leading position in life insurance for high net worth individuals. As an innovative health insurer,

Swiss Life ranks second in the private health and disability insurance market.

In the strongly fragmented German market, Swiss Life is one of the leading providers of occupational pensions and disability solutions, with a market share of 1.7%. The company is aiming to build on its strong position in these areas and to drive forward the shift to more profitable life and pensions solutions with variable guarantees. Along with product innovation and the expansion of distribution channels, the focus is on improving operational excellence.

Swiss Life is a leading player in the growing global business of insurance solutions for high net worth individuals (Private Placement Life Insurance). Other business units such as Corporate Solutions, which provides employee benefits solutions to key accounts and multinationals, support Swiss Life's cross-border business.

With AWD, Swiss Life also has a leading financial services provider as a partner, boosting its distribution power in Switzerland and Germany and providing access to new markets. AWD also supports Swiss Life with its product management know-how and contributes to the diversification of earnings.

MARKET ENVIRONMENT – Life insurance market offers a wealth of opportunities – Confidence in private pension systems was scarcely affected during the financial crisis. National debt increases and savings measures introduced in various European countries will intensify the pressure on national pension systems. In order to compensate for demographic and economic trends, private and occupational pension funds will gain greater significance in the future.

This offers life insurance companies, with their core competencies centred on covering biometric risks and offering long-term life and pensions solutions, good prospects for growth. However, the current market environment also poses some challenges to life insurers:

REGULATORY ENVIRONMENT – The financial crisis has caused regulators to give higher priority to factors such as equity ratio, investor protection and accounting principles

and forced them to take action which will have a long-term impact on the insurance industry. This is most evident in the new Solvency II guidelines, which are set to come into force in Europe in 2013 at the earliest and were already introduced in Switzerland in January 2011 in the form of the Swiss Solvency Test (SST). These new solvency systems measure insurance companies' economic risk situation, with the objective of guaranteeing protection for insured persons, even in the case of extreme situations.

OPERATIONAL EXCELLENCE – Operational excellence is a fundamental prerequisite if companies are to remain competitive in the attractive life and pensions market. Along with cost efficiency, improvements in service quality and faster product launches are essential.

PRODUCT INNOVATION – The new capital requirements are causing insurers to reduce guarantees on their balance sheets. However, guarantees respond to a real customer need, particularly in difficult times. In order to resolve this conflict of interest, innovative solutions are required, such as Swiss Life Champion Timeplan, a payout plan with guaranteed monthly payments.

CLIENT ACCESS – Efficient access to clients will be a key factor for a life insurance company's success. A successful multichannel strategy can provide an important competitive advantage in this connection. The distribution of innovative products requires more than just a good salesperson. Clients would like to have advisory services stepped up and to be optimally supported over the years.

STRATEGY – Increasing competitiveness and profitability with **MILESTONE** – Swiss Life aims to become a leading international specialist for risk, life and pensions solutions. In order to achieve this ambition, the Group launched its **MILESTONE** programme at the end of 2009. This long-term revitalisation programme is specifically and systematically aimed at increasing competitiveness and profitability. **MILESTONE** has since become incorporated into Swiss Life's strategy.

The focus is on six main thrusts directed at improving the company's operational effectiveness. With the initiatives it has developed, which exert an influence on key parts of the value chain, Swiss Life also wants to take advantage of

the opportunities offered by the current market environment and to take up the challenges posed:

1. With its consistent focus on modern life and pensions solutions and risk products, Swiss Life aims to enhance customer value by providing greater flexibility and higher potential returns. At the same time, the Group wants to increase profitability and to reduce capital requirements for new business.

2. Swiss Life is pursuing a multichannel strategy targeted at optimising distribution power. The Group would like to build on the solid basis in all units in order to increase quality and productivity in distribution. In addition to its proprietary distribution network, therefore, it is focusing on independent distribution channels, such as banks, brokers and financial advisors like AWD and, increasingly, on the internet.

3. In order to steadily improve operational excellence, Swiss Life is optimising corporate structures and processes in all parts of the value chain, and while lowering the cost base over the long term is raising the quality of its service.

4. Swiss Life aims to reduce earnings volatility and to preserve the balance sheet. On the one hand, it is focusing on increasing the profitability of in-force business and further diversifying sources of profit. On the other hand, on the investment side, the company is continuing to work towards the goal of generating stable, sustained income.

5. Swiss Life intends to ensure the disciplined execution of its plans by means of stricter internal controlling.

6. The Group hopes to further boost the above-average level of employee engagement as a basis for achieving the objectives in 2012.

Swiss Life – The future starts here.



PROGRESS – Implementation of MILESTONE going to plan and yielding results – Thanks to the disciplined execution of MILESTONE and the high level of engagement displayed by its employees, Swiss Life has already made great progress in 2010 and is getting closer to achieving the objectives it set for 2012. The Group has become more profitable, more nimble and more competitive:

Shift in product mix



¹incl. risk products and health insurance

- Due to more than 30 new or adapted products, Swiss Life generated 69% of its new business in 2010 through modern life and pensions solutions and risk products. This means the 2012 target of 70% has already almost been achieved.
- By means of consistent margin management, the company was able to compensate for negative economic impacts on new business like falling interest rates and the weak euro and to increase its margin to 1.4%. Its target is still a new business margin of 2.2%.
- Distribution power in all market units was enhanced by means of a number of initiatives, and AWD increased production volume of Swiss Life products by 9% to around CHF 800 million (on a comparable basis). At the same time, the objective remains for AWD to generate a 20-25% share of Swiss Life products in the relevant product categories.
- By comparison with the cost base of 2008, CHF 311 million had been saved by the end of 2010. 85% of the initiatives underlying the cost savings target of CHF 350-400 million by 2012 have already been realised.
- Return on equity in 2010 grew from 4.0% to 7.6%. The objective set for 2012 is 10-12%. The proposed dividend of CHF 4.50 in the form of a repayment of par value gives a dividend payout ratio of 26%, which is within the target range of 20-40%.
- The company also succeeded in reducing its dependency on investment performance, thanks among other things to the lower cost base and the sustained improvement in AWD's profitability.