Occupational benefits insurance

Operating statement 2020

Semi-autonomous solutions are more attractive, fairer, and more flexible in every scenario.

Thomas Gerber
Head of Life, Savings & Health,
AXA Switzerland

OPA reform poses a challenge

Switzerland's unique three-pillar system strikes a balance between solidarity and self-determination, but the planned reform of its beating heart – the second pillar – threatens to upset this balance.

> "Now it's up to the politicians to get our three-pillar system back on track."

An interview with Thomas Gerber

Mr. Gerber, how do you assess the current state of the second pillar in view of the planned pension reform?
Again and again, we note with pride just how clever and sophisticated our three-pillar system is. The balance between the three pillars reflects the Swiss population's commitment to solidarity, social partnership, and self-determination.

The beating heart of the system is the second pillar, in which employees and employers take joint responsibility for occupational benefits and work in partnership to secure pensions. It therefore comes as no surprise that many of the foundations' boards, which comprise equal numbers of employee and employer representatives, recognized the need to act in response to rising life expectancy and low interest rates at an early stage and adjusted the parameters for extra-mandatory benefits in good time.

It's now up to the politicians to adjust the basis for mandatory benefits under the OPA in line with reality. The mandatory conversion rate in particular is preventing the "ancillary" OPA funds, which mainly insure people with low incomes, to reduce the redistribution from young to old and thus also stabilize their financial situation.

What is your view on the Federal Council's reform proposal?
The Federal Council presented a reform project for the second pillar in November 2020 that's based on a proposal put forward by the social partners. It basically involves immediately reducing the mandatory conversion rate from 6.8 % to 6 % and offsetting this with higher savings contributions. A kind of "mini-OASI" is proposed to maintain pension levels for the transitional generation by making all insured persons pay 0.5 % of their salary into a compensation "pot".

The planned OPA reform is also intended to allow the ancillary OPA funds that mainly insure people with low incomes and thus operate close to the statutory minimum requirements to adjust their parameters to the changing environment. The mandatory conversion rate that currently applies is preventing these occupational benefits institutions from reducing the undesirable redistribution from young to old and stabilizing their financial situation for the long term.

However, what is being presented as a pragmatic give-and-take arrangement is in reality fraught with disadvantages.

What are these disadvantages?
Firstly, most of the people who would benefit from this solution don't really need it. In fact, only about 14 % of all insured persons are covered by an ancillary OPA fund. This means that reducing the conversion rate wouldn't actually lead to a lower pension at all for the vast majority of people.

Secondly, most pension funds already have enough reserves to fill the gap for the transitional generation themselves.

Thirdly, the extra 0.5 % salary deduction would drastically increase the redistribution from young to old rather than finally reducing it.

Last but not least, a centrally controlled "mini-OASI" would undermine the decentralized responsibility of the foundations' boards.

This is especially problematic. It's precisely the separation between solidarity (first pillar), social partnership (second pillar), and self-determination (third pillar) that makes our system so unique.

A "mini-OASI" would also deprive the actual OASI of urgently needed extra resources, thereby weakening not only the social partnership in the second pillar, but also the solidarity in the first. This could be the beginning of the end for the three-pillar system.

Many in political circles have long since acknowledged the need to correct the reform. Alternative proposals have been put forward that also take account of the social partners' aims. Parliament must now work to put our clever and sophisticated three-pillar system, with the social partnership of the second pillar at its heart, back on track.

Insured persons need transparency with regard to their benefits, but keeping track of future benefits isn't exactly easy given Switzerland's complex social insurance system. That's why we've developed a digital portal, myAXA, that allows people to track their pension situation and explains various aspects of occupational benefits.

Constance Reschke
Head of Occupational Benefits,
AXA Switzerland

Strong growth

AXA's semi-autonomous collective foundations have paid out CHF 1 billion more in interest to insured persons over the past two years than they would have been able to with full-value insurance. The semi-autonomous model is proving its worth in these challenging times.

"New business tripled in 2020 – an all-time high."

An interview with Constance Reschke

Ms. Reschke, AXA has been fully focused on semi-autonomous pension solutions since the start of 2019. What conclusions can you draw from the first two years of semi-autonomy?
Our new, semi-autonomous collective foundations have performed very well over the past two years and overcome the challenge of the pandemic without a problem. Despite the hefty fluctuations on financial markets in 2020, these foundations once again paid a high rate of interest on insured persons' retirement assets. Over the past two years, they have paid out CHF 1 billion more in total than would have been possible with full-value insurance.

This is good news for insured persons because the interest rate of 2 % we achieve through semi-autonomy makes a huge difference to their future pension annuities compared with the OPA minimum interest rate of 1 %. Thanks to higher interest and more stable conversion rates for extra-mandatory benefits, insured persons can expect up to 30 % more pension. This could mean several hundred francs a month more for some people.

How are the semi-autonomous collective foundations' coverage ratios? Have the foundations been able to cushion the impact of market fluctuations?
Fluctuations on the capital markets, especially stock markets, are a common occurrence. Thanks to their solid financial and structural underpinning, AXA's collective foundations can compensate for market fluctuations over time. They entered semi-autonomy with additional reserves of CHF 3 billion and a high coverage ratio, and they succeeded in increasing their fluctuation reserves further in 2019. Despite the market volatility, there has been no risk of temporary underfunding at any point so far. The average coverage ratio at the end of 2020 was around 110 %.

The foundations also have a very good age structure, a high proportion of extra-mandatory pension assets, and minimal pension obligations, which in turn reduces the need for redistribution from active insured persons to pensioners.

As a result, our semi-autonomous collective foundations are able to offer affiliated companies and their staff an effective pension fund solution for the long term that remains impressively solid in challenging times.

What has been the trend in new business?
The attractive conditions our semi-autonomous collective foundations offer are drawing in large numbers of new customers. After nine out of ten existing customers opted to stay on board when the shift to semi-autonomy happened, AXA's collective foundations have also experienced renewed growth in new business over the past two years. In fact, it tripled year-on-year in 2020 – an all-time high.

How do you intend to develop the business going forward?
Occupational benefits institutions and pension funds face a number of challenges. Demographic change, the difficult capital market situation, digital transformation, and the increasing need for state-of-the-art IT infrastructure are making pension fund management a highly demanding, labor-intensive business. At the same time, the importance of having a good pension solution is growing when it comes to attracting the best staff.

We're convinced that new, total solutions are needed to face up to the market's ever-changing demands. That's why we're combining existing pension solutions with new technologies and services and developing new offerings that go way beyond the classic pension and insurance solutions, particularly in terms of employee health and motivation.

For example, we recently launched Swibeco, an innovative solution for fringe benefits that our occupational benefits customers can use free of charge for their staff, further enhancing their appeal as employers.

Daniel Gussmann
Chief Investment Officer,
AXA Switzerland

Sustainably more profitable

Thanks to its best-in-class approach, rigorous sustainability criteria, and systematic implementation of its strategy, AXA Asset Management continues to generate attractive returns for customers in turbulent times.

> **"Sustainability factors play a key role in our investment process."**

An interview with Daniel Gussmann

Mr. Gussmann, 2020 was a challenging year for investors. Were you able to keep your nerve throughout?
Last year was indeed a historic and very turbulent one that threw up lots of challenges. As an insurer and asset manager, we have the long-standing expertise to invest premiums and pension assets in a profitable yet secure way even in difficult times. Our carefully balanced investment strategy and prudent portfolio management yielded highly impressive returns of up to 6.5 % for our customers in 2020 in spite of the considerable volatility on the markets, which allowed us to pay above-average interest on retirement assets. To achieve the best possible returns over the long term, we pursue a risk-aware investment approach based on the best-in-class principle and rigorous sustainability criteria.

How did your customers cope during this turbulent time?
During the first quarter in particular, when the coronavirus pandemic caused market prices to plummet, we were in constant contact with our customers and especially with our semi-autonomous collective foundations. They all have investment strategies that are geared to the long term and thus remain valid in times of high volatility. Our portfolios were very well prepared for the future even before the pandemic broke out, and the events of 2020 merely served to underscore this. We could demonstrate to our customers at all times how robust our portfolios were, even against this exceptional backdrop.

So you are satisfied with the end result despite having had a challenging year?
Absolutely. As difficult as 2020 was, it allowed us to show our strengths. Besides pleasing returns of up to 6.5 %, the best yardstick for customer satisfaction is the volume of assets our customers entrust to us, which rose by almost CHF 3 billion to more than CHF 33 billion in total last year. We're also seeing encouraging demand for our recently launched investment solutions involving mortgages and real estate.

Sustainability is gaining importance in the investment world these days. How are you addressing it?
The AXA Group has attached a great deal of importance to this topic for years, having defined climate protection as a central strategic theme. Sustainability factors play a key role in our investment process, both in our business with third-party customers and in terms of how we invest our own premiums and insurance assets. We take our responsibility in respect of sustainability issues very seriously and are keen to take on a pioneering role in this respect. This is reflected, for example, in the Dow Jones Sustainability Index (DJSI), which ranks the world's largest companies for sustainability. For 2020, AXA achieved a score of 88 out of a potential 100 points, which represents a five-point rise on the previous year. Thanks to this increase, we were able to improve our ranking in the insurance industry from third place in 2019 to second place out of 129 insurance companies. Our excellent ranking shows that our sustainability strategy is following a clear course.

As early as 2015, AXA was the first major insurance company to announce a gradual exit from the coal industry, in terms of both investments and insurance coverage. AXA will now further step up its efforts to promote steering a course toward a low-carbon future.

We firmly believe that sustainable use of all resources adds value over the long term, both for our customers and for society at large, but we can only achieve positive changes if as many companies as possible commit to sustainability. We would therefore like to encourage and support other companies on the path toward a more sustainable future.

Key data

Number of insured persons

At the end of 2020, AXA had 524,808 insured persons with occupational benefits insurance. This figure includes 359,932 active insured persons, 66,777 pension recipients, and 98,100 vested benefits policies.

The portfolio of insured persons increased by 19,525 or 3.9 % year-on-year. Thanks to the positive trend in new business, the number of active insured persons rose by 27,568. This results from the increase in other active insured persons, where insured persons in semi-autonomous models are also reported, and the fall in full-value insurance in connection with the transformation of the occupational benefits business to a semi-autonomous model in 2019.

The number of vested benefits policies fell by 6,702, and the number of pension recipients by 1,341, the latter being due to the collective foundations covering new pensions.

Costs for active insured persons

Operating expense for active insured persons decreased year-on-year from CHF 186 million to CHF 170 million due to rigorous efforts to increase efficiency and cost discipline. Costs per active insured person fell by CHF 85 to CHF 474 as a result of the lower expense and the higher number of insured persons.

	2020		2019	
Existing customer base at end of accounting year	**524,808**		**505,283**	
Number of active insured persons	359,932		332,363	
Number of persons with full-value insurance	30,163		45,748	
Number of other active insured persons	329,769		286,615	
Number of pension recipients	66,777		68,118	
Number of vested benefits policies	98,100		104,802	
Interest and conversion rates	**Mandatory benefits**	**Extra-mandatory benefits**	**Mandatory benefits**	**Extra-mandatory benefits**
Effective interest rate including surplus participation	1.00 %	0.00 %	1.00 %	0.25 %
Interest rate applied to retirement assets	1.00 %	0.00 %	1.00 %	0.00 %
Pension conversion rate for men retiring at age 65	6.80 %	5.00 %	6.80 %	5.00 %
Pension conversion rate for women retiring at age 64	6.80 %	4.88 %	6.80 %	4.88 %
Technical interest rate for valuation of the pension liabilities	0.70 %		0.80 %	
	Total in millions	**per capita**	**Total in millions**	**per capita**
Total cost premium	**153**		**148**	
Active insured persons	153	425	148	445
Vested benefits policies / per policy	0	0	0	0
Other cost premiums	0	0	0	0
Total operating expense	**204**		**220**	
Operating expense ex pension recipients	**175**		**191**	
Active insured persons	170	474	186	558
Vested benefits policies	5	49	5	48
Operating expense for other cost units	0		0	
Operating expense for pension recipients	**29**		**29**	
Pension recipients	29	427	29	426

Monetary amounts in CHF

Income statement

Income	2020	2019
Retirement credits	143	235
Individual deposits due to start of employment, purchases, PHO or divorce	174	820
Retirement assets brought in connection with contract transfers	39	12
Deposits for retirement and survivors' pensions	31	40
Deposits for disability pensions and disabled person's child's pensions	60	48
Deposits for vested benefits policies	1	2
Savings premiums	**447**	**1 157**
Risk premiums	**435**	**393**
Cost premiums	**153**	**148**
Gross premiums written	**1,035**	**1,698**
Gross investment income	**690**	**819**
Direct investment income	490	532
Cash and cash equivalen	0	0
Bonds	183	215
Properties	131	141
Mortgages	79	88
Other investments	97	87
Result from disposals	173	422
Balance from write-ups and write-downs	101	– 23
Currency result	– 68	– 88
Interest expense	– 7	– 24
Asset management fees	– 68	– 57
Net investment income	**623**	**761**
Other income	**17**	**13**
Reinsurance result	**– 13**	**3**
Income	**1,662**	**2,476**

Expenditure	2020	2019
Benefits on retirement	893	997
Pension benefits	781	796
Lump sum benefits	111	201
Death and disability benefits	469	466
Pension benefits	387	374
Lump sum benefits	82	92
Individual lump-sum benefits (vested benefits, PHO, divorce, VBP)	397	1,032
Surrender values from contract terminations	814	24,590
Benefit processing expenses	29	29
Benefits	**2,601**	**27,114**
Retirement assets	– 837	– 24,564
Provision for future conversion rate losses	– 62	– 83
Actuarial reserves for current retirement and survivors' pensions	– 411	– 222
Actuarial reserves for current disability pensions and disabled person's child's pensions	16	– 223
Actuarial reserves for vested benefits policies	– 115	– 144
Actuarial reserves for other coverages	0	0
Strengthening of actuarial reserves for annuity capital and vested benefits policies	– 117	58
Provision for insurance cases which have occurred but have not yet been settled	0	– 28
Fluctuation and interest guarantee provisions	148	116
Cost-of-living provisions	0	0
Other technical provisions	– 25	– 56
Change in technical provisions	**– 1,404**	**– 25,145**
Allocation to surplus fund	**153**	**173**
Change in unearned premium reserves	**0**	**0**
Acquisition and administrative expenses	**178**	**193**
Other expenses	**19**	**14**
Operating result	**115**	**127**
Expenditure	**1,662**	**2,476**

Monetary amounts in CHF millions

Explanations regarding earnings
In occupational benefits insurance, the total income consists mainly of savings premiums, risk premiums, and cost premiums together with investment income. This figure fell by 33 % year-on-year due to the transformation of further full-value insurance foundations (e. g. company-owned foundations and association solutions) to a semi-autonomous model at the start of the year.

As a result of the transformation, these foundations' savings premiums are no longer booked to AXA's income statement, hence the 39 % fall in premium income to CHF 1.0 billion. The remaining single premiums and savings premiums originate primarily from other occupational benefits institutions that have not yet made the transition to semi-autonomy. Risk and cost premiums were down 9 %, the main reason being the highly positive trend in new business in 2020.

The transformation and resulting transfer of investments to the occupational benefits institutions, coupled with the difficult market environment, also led to an 18 % fall in investment income to CHF 623 million.

Explanations regarding expenditure
The most important items making up overall expenditure are benefits for insured persons, technical provisions, acquisition and administrative expenses, and insured persons' participation in the surplus, which is allocated to the surplus fund.

Benefits fell by CHF 24.5 billion to CHF 2.6 billion in the reporting year. This sharp decline is almost entirely attributable to the increase in surrenders in the prior year due to the first wave of transformation following the transfer of retirements assets to the foundations. Individual lump-sum benefits and lump-sum benefits on retirement also fell markedly, by 59 %, while death and disability benefits remained virtually unchanged.

In 2020, the technical provisions decreased by a further CHF 1.4 billion (prior year: decrease of CHF 25.1 billion). Retirement assets fell by CHF 837 million, primarily as a result of the transfer to the occupational benefits institutions. The conversion of further occupational benefits institutions (e.g. company-owned foundations and associations) allowed the provision for future conversion rate losses to be reduced by CHF 62 million. The actuarial reserve for current retirement and survivors' pensions was reduced by CHF 411 million in view of the smaller number of pensioners, while the actuarial reserve for current disability pensions and disabled person's child's pensions was more or less stable. The smaller portfolio also led to further reductions in the actuarial reserve for vested benefits policies (CHF 115 million) and in the strengthening of actuarial reserves for annuity capital and vested benefits policies (CHF 117 million).

Thanks to the good result from the saving process, CHF 148 million from the current account was allocated to the fluctuation and interest guarantee provisions.

The allocation to the surplus fund in favor of insured persons fell from CHF 173 million to CHF 153 million; this was mainly because CHF 21 million more had been released from the provision for future conversion rate losses and passed on to the insured persons in 2019.

In 2020, acquisition and administrative expenses together with other expenses were 5 % lower year-on-year at CHF 197 million, mainly as a result of lower administrative expenses.

The operating result for 2020 amounted to CHF 115 million (before tax). The fall of CHF 12 million is mainly attributable to lower investment income.

Balance sheet: key figures

Explanations regarding the liabilities side
The transfer of retirement assets to the occupational benefits institutions in the second wave of transformation caused retirement assets to fall by 26 %. The remaining retirement assets originate from insurance contracts with company-owned and association-run foundations that have not yet made the transition to semi-autonomy. Since the existing recipients of retirement and survivors' pensions as well as the risks of death and disability continue to be insured with AXA, the corresponding reserves also remain on AXA's balance sheet. The portion of the provision for future pension conversion rate losses no longer needed due to the transformation to a semi-autonomous model is being released in stages – a further CHF 62 million in 2020 – and paid into the surplus fund in the corresponding year, then paid out to the occupational benefits institutions involved in the transformation as a special surplus the following year.

Other liabilities declined mainly as a result of lower liabilities toward policyholders due to the second wave of transformation.

Explanations regarding the assets side
In the second wave of transformation, as in the first, investments were transferred to the occupational benefits institutions in accordance with the changes on the liabilities side. Investments with a book value equal to that of the retirement assets being transferred were selected and transferred to the occupational benefits institutions. For those recipients of retirement and survivors' pensions remaining on the AXA balance sheet, investments were also selected at book values that correspond to the pension payments. In this process, it was ensured that the ratio of market value to book value is identical in the remaining portfolio and the transferred portfolio.

Asset items

Asset items	2020		2019	
Cash and cash equivalents, time deposits	52	0.22 %	76	0.31 %
Bonds in Swiss francs	10,335	44.27 %	10,728	44.24 %
Bonds in foreign currencies	2,036	8.72 %	2,808	11.58 %
Properties	2,637	11.30 %	2,815	11.61 %
Mortgages	4,359	18.67 %	4,593	18.94 %
Equities and participating interests	344	1.48 %	565	2.33 %
Alternative investments	1,251	5.36 %	1,364	5.62 %
Investment fund units	205	0.88 %	1	0.00 %
Net credit balances from derivative financial instruments	2	0.01 %	15	0.06 %
Other investments	2,123	9.09 %	1,286	5.30 %
Total investments	**23,344**	**100.00 %**	**24,251**	**100.00 %**
Liabilities from derivative financial instruments	**97**		**672**	
Other assets	**582**		**1,120**	
Ceded reinsurance	**49**		**42**	
Total net assets	**24,071**		**26,085**	

Liability items

Liability items	2020		2019	
Retirement assets	2,401	10.38 %	3,239	13.20 %
of which mandatory benefits	1,367		1,794	
of which extra-mandatory benefits	1,035		1,445	
Provision for future pension conversion rate losses	15	0.06 %	77	0.31 %
of which mandatory benefits	6		9	
of which extra-mandatory benefits	9		68	
Actuarial reserves for current retirement and survivors' pensions	13,169	56.94 %	13,580	55.36 %
of which mandatory benefits	6,581		6,608	
of which extra-mandatory benefits	6,588		6,972	
Actuarial reserves for current disability pensions and disabled person's child's pensions	1,385	5.99 %	1,369	5.58 %
of which mandatory benefits	753		776	
of which extra-mandatory benefits	632		593	
Actuarial reserves for vested benefits policies	1,328	5.74 %	1,444	5.88 %
Strengthening of actuarial reserves	3,405	14.72 %	3,522	14.36 %
Provision for insurance cases which have occurred but have not yet been settled	346	1.50 %	346	1.41 %
Provisions for interest guarantees, claims fluctuations and value fluctuations	464	2.01 %	316	1.29 %
Other technical provisions	261	1.13 %	286	1.17 %
Cost-of-living provisions	352	1.52 %	353	1.44 %
Technical provisions	**23,127**	**100.00 %**	**24,532**	**100.00 %**
Surplus fund	**214**		**237**	
Unearned premium reserves	**0**		**0**	
Credited surplus portions	**0**		**0**	
Other liabilities	**730**		**1,316**	
Total net assets	**24,071**		**26,085**	

Monetary amounts in CHF millions

Investments

AXA aims to achieve an optimal combination of profitability, liquidity, and security when managing its investments. It has thus been investing for some years now to enhance its asset-liability management (ALM) capability. The analyses and findings of ALM provide the basis for the investment strategy, ensuring that, despite fluctuations in the value of investments, there is always enough equity available to meet the company's obligations at all times.

Investments broken down by asset class
In line with the investment strategy, the majority of funds are invested in fixed-interest securities, with the portfolio's focus being on top-quality and corporate bonds. Top-quality bonds include Swiss government and mortgage bonds. As they are considered to be virtually risk-free, they offer correspondingly low returns.

The decrease in investments is attributable to the transformation of full-value insurance foundations to semi-autonomous solutions in the year under review.

The "Other investments" item comprises mortgages, loans, cash and cash equivalents, and short-term investments and showed a slight increase year-on-year.

The valuation reserves show the difference between market and book values. Despite the transformation to semi-autonomous solutions and the resulting reduction in investments, valuation reserves were higher in 2020. The main reason for this was the positive trend on the market for fixed-interest investments.

Investments

	2020		2019	
	Book value	Market value	Book value	Market value
Real property and buildings	2,637	3,492	2,815	3,745
Shares in real estate companies	198	438	198	398
Shares in associated companies	0	0	0	0
Participations	0	0	0	0
Equities and units in investment funds	351	379	367	414
Own equities	0	0	0	0
Fixed-interest securities	12,371	14,377	13,536	15,370
Hedge funds	227	252	297	339
Private equity	1,024	1,041	1,067	1,125
Net credit balances from derivative financial instruments	2	2	15	15
Other investments	6,533	6,533	5,955	5,955
Total investments	**23,344**	**26,515**	**24,251**	**27,361**
Valuation reserves at the end of the accounting year		**3,171**		**3,110**
Change in valuation reserves compared to previous year		**61**		**–2,183**

Monetary amounts in CHF millions

	Market value	Share	Market value	Share
Market value of investments	**26,515**	**100.0%**	**27,361**	**100.0%**
Direct investments	25,006	94.3%	25,897	94.6%
Single- and multi-level collective investments	1,311	4.9%	984	3.6%
Non-cost-transparent investments	199	0.7%	480	1.8%

Monetary amounts in CHF millions

Return earned and performance of investments
The gross return on investments of CHF 690 million corresponds to a return on book values of 2.94 % (prior year: 3.23 %). After deduction of asset management costs, a return of 2.65 % (prior year: 3.00 %) was achieved in spite of the difficult market environment.

The returns shown in italics in this table (before transfer of investments) correspond to the calculated returns without adjustment for the reduction in investments following the transfer.

Asset management costs (gross) fell by CHF 2 million, mainly due to lower costs for direct investments as a result of reduced maintenance and servicing costs for properties. Meanwhile, increased cost transparency led to higher costs for single- and multi-level investments, while the rise in transaction volumes led to higher TTC costs.

Trend of return on investments

	2020	2019
Direct earnings from investments	490	532
Other investment income	200	287
Result from disposals	173	422
Balance from write-ups and write-downs	101	– 23
Currency result	– 68	– 88
Interest expense	– 7	– 24
Investment income, gross	**690**	**819**
Asset management costs	– 68	– 57
Investment income, net	**623**	**761**
Asset management without real estate maintenance	– 68	– 57
Maintenance and servicing of real estate*	– 28	– 36
Total asset management costs	**– 95**	**– 94**

Monetary amounts in CHF millions

* The costs of maintenance and servicing of real estate are offset in the income statement directly against real estate income (net view).

Return and performance

	2020		2019	
	Gross	Net	Gross	Net
Total return on book values	**2.94 %**	**2.65 %**	**3.23 %**	**3.00 %**
Book value performance (before transfer of investments)	*2.90 %*	*2.62 %*	*2.13 %*	*1.98 %*
Market value performance	**3.12 %**	**2.87 %**	**3.78 %**	**3.58 %**
Market value performance (before transfer of investments)	*2.79 %*	*2.54 %*	*– 3.21 %*	*– 3.34 %*

Asset management fees

	2020	2019
Direct investments	– 56	– 69
Single- and multiple-level investments	– 17	– 9
TER costs	– 72	– 78
TTC costs	– 14	– 9
SC costs	– 11	– 12
Asset management costs (gross)	**– 97**	**– 99**
Capitalized costs	**1**	**5**
Maintenance and servicing costs for properties	**28**	**36**
Asset management costs (net)	**– 68**	**– 57**

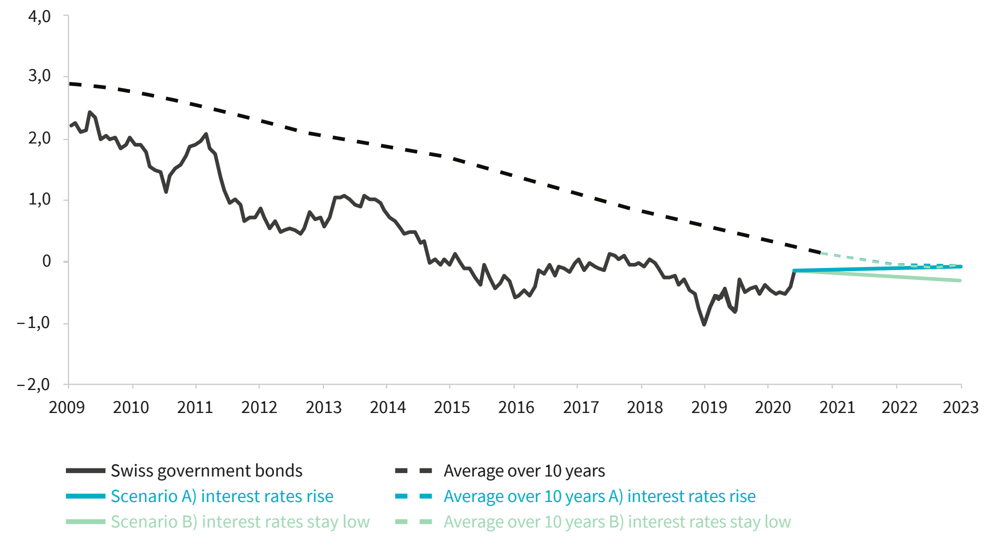
Monetary amounts in CHF millions

TER costs: Costs of administration and management (internal and external)
TTC costs: Transaction costs
SC costs: Costs that cannot be allocated to individual investments

Outlook for 2021
Last year's events were dominated by the COVID-19 crisis. Early in the year, massive restrictions were imposed in an effort to contain the exponential spread of the novel coronavirus. These restrictions caused large parts of public life to grind to a halt, which had a severe impact on economic output. The resulting uncertainty peaked in mid-March, with equity indexes around the world posting huge losses – the Swiss Performance Index, for example, dropped 26.33 %. Bond yields were briefly well into negative territory, with the yield on ten-year Swiss government bonds falling as low as – 0.98 %, and spreads more than doubled in a very short time. As the year progressed, the capital markets bounced back thanks to fiscal stimuli, intervention on the job market, and money market support.

The new US President's election victory and the Democrats' slender majority in the US Senate also had a positive influence on the stock markets toward the end of 2020 and through into the start of 2021, not least thanks to the new government's intention to adopt a USD 1.9 trillion stimulus package. The markets responded with higher inflation expectations and rising interest rates. This may be a positive development for the global economy but could lead to further uncertainty if interest rates are adjusted too quickly. It is therefore essential to employ a broadly diversified investment strategy. With this in mind and to reduce the impact of interest rates that remain at all-time low levels, AXA is staying true to its proven, diversified investment strategy.

Yield on 10-year Swiss government bonds



Source: Bloomberg, interest rate trend up to March 16, 2021

Minimum distribution ratio (MDR)

Explanations
The majority of group life business is subject to statutory provisions governing the minimum distribution ratio (MDR). These provisions state that at least 90 % of the income generated must be used for the benefit of insured persons – i. e. for insurance benefits, strengthening reserves, and allocations to the surplus fund. At 90.4 %, AXA's distribution ratio remained above the statutory minimum in the reporting year.

Explanation of business processes
We distinguish between three basic business processes:

Process	Revenues	Expenses (benefits)
Saving process	Net investment income	• Interest paid on retirement assets and actuarial reserves for current pensions, conversion losses • Formation and reversal of technical provisions for longevity risk, interest guarantees, and fluctuations in the value of investments
Risk process	Risk premium	• Payment of death and disability benefits • Formation and reversal of technical provisions for insurance cases reported but not yet settled, for insurance cases which have occurred but have not yet been reported, for claims fluctuations as well as for rate adjustments and rate restructuring
Cost process	Cost premium	• Administrative and customer advisory services related to occupational pensions and insurance

	2020		2019	
	Subject to MDR	Not subject to MDR	Subject to MDR	Not subject to MDR
Sum of income components	1,139	72	1,228	74
Saving process (income from investments)	623	0	761	0
Risk process (risk premiums)	372	63	331	62
Cost process (cost premiums)	145	8	136	12
Total expenditure	– 930	– 44	– 875	– 36
Saving process (mainly technical interest)	– 416	0	– 476	0
Risk process (mainly death and disability benefits)	– 311	– 40	– 214	– 30
Cost process (mainly administrative costs)	– 202	– 5	– 185	– 6
Gross result, operating statement	209	28	353	38
Change in technical provisions in the saving process	10	0	– 127	0
Longevity risk	96	0	– 94	0
Gaps in coverage on conversion into pensions	62	0	83	0
Interest guarantees	– 92	0	– 60	0
Reversal of cost-of-living provisions in favor of strengthening measures	0	0	0	0
Fluctuations in value of investments	– 56	0	– 56	0
Change in technical provisions in the risk process	23	– 2	32	3
Insurance cases reported but not yet settled	23	– 2	32	3
Insurance cases which have occurred but have not yet been reported	0	0	0	0
Fluctuations in claims	0	0	0	0
Rate adjustments and rate restructuring	0	0	0	0
Total change in technical provisions	33	– 2	– 95	3
Cost of raising additional risk capital	0	0	0	0
Allocation to surplus fund	– 133	– 20	– 136	– 36
Result, operating statement	109	5	122	5
Dividend ratio	90.4 %	92.8 %	90.1 %	93.2 %
Recapitulation of the operating result				
Share of business subject to MDR	109		122	
Share of total income as %	9.6 %		9.9 %	
Share of business not subject to MDR		5		5
Share of total income as %		7.2 %		6.8 %
Operating result	115		127	
Share of total income as %	9.5 %		9.8 %	
Surplus fund	185	29	188	49

Monetary amounts in CHF millions

Earnings and expenditure
In occupational benefits insurance, the various elements of income and expense are assigned to the saving, risk, and cost processes. Within each of these three processes, certain items of income are posted against certain expense items. Although, as a general rule, each process should cover its own costs, cross-subsidization is possible. AXA was able to significantly alleviate the problematic situation in the saving process caused by high conversion rate losses through the transformation of the collective foundations to semi-autonomy.

Change to technical provisions
Technical provisions are reserves that AXA uses to strengthen its ability to meet future challenges. The technical interest rate, which had already been reduced from 1.0 % to 0.8 % in 2019, was cut further to 0.7 % in 2020. Actuarial reserves for current retirement pensions were reduced by CHF 96 million due to the smaller portfolio of pensioners. The good result from the saving process allowed AXA to strengthen the fluctuation reserves for interest rates and investments by a further CHF 92 million.

A large proportion of the provision for the gap in coverage on conversion into pensions is no longer required due to the conversion of the collective foundations to semi-autonomy and the resultant assumption of annuitization losses by the foundations. It was thus possible to allocate a further CHF 62 million to the surplus fund in 2020, which will benefit the insured persons in 2021.

Division of income between insured persons and AXA
AXA's operating result depends directly on the applicable revenue, which consists of the return on investments, the risk premium, and the cost premium. It is limited by the statutory minimum distribution ratio (MDR) to a maximum of 10 %. For business subject to the MDR, a total of CHF 1,030 million went to insured persons in 2020 – in the form of insurance benefits, strengthening reserves, and allocations to the surplus fund. This equates to a distribution ratio of 90.4 %. AXA's profit – the remaining 9.6 % – was CHF 109 million (before tax) in 2020.

How the minimum distribution ratio is calculated

		2020	2020	2019	2019
Saving process	Income from investments		623		761
Risk process	Premium income from death and disability insurance		372		331
Cost process	Premium income for operations and service		145		136
Sum of income components			1,139		1,228
At least 90 % of the income components go to insured persons in the form of benefits.			90.4 %		90.1 %
Use for the following benefits for insured persons:					
1. Interest on retirement assets of insured persons and conversion losses		– 416	Total – 930	– 476	Total – 875
2. Benefits in the event of disability and death		– 311		– 214	
3. Administration, operations, and service		– 202		– 185	
Formation of reserves for future benefits for insured persons					
1. Longevity		96	Total 33	– 94	Total – 95
2. Gap in coverage on conversion into pensions		62		83	
3. Interest guarantees due to persistent low interest rate phase		– 92		– 60	
4. Reversal of cost-of-living provisions in favor of strengthening measures		0		0	
5. Fluctuations in value of investments		– 56		– 56	
6. Expected benefit cases due to disability		23		32	
Allocation to surplus fund to be used for insured persons			– 133		– 136
Total benefits allocated to insured persons			– 1,030		– 1,106
The profits of life insurers are limited by law and cannot exceed 10 % of the income components.			9.6 %		9.9 %
Operating result for AXA Life Ltd. from business subject to MDR (gross before tax)			109		122

Monetary amounts in CHF millions

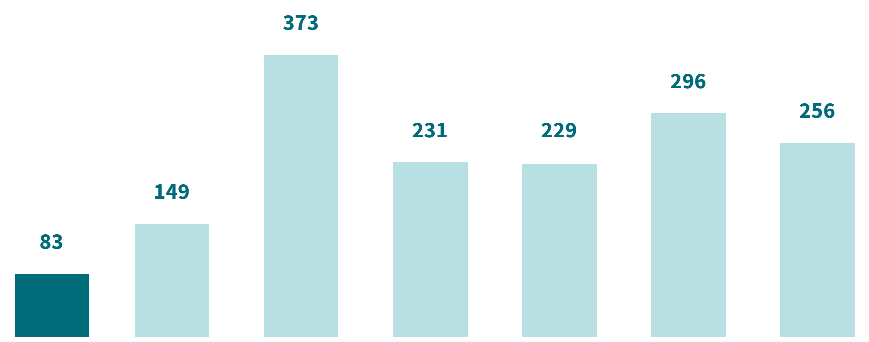
Risk process

Explanations
The risk process comprises income from risk premiums, expenses in the form of death and disability benefits, the formation and/or reversal of technical provisions, and allocations to the surplus fund.

By law, AXA is entitled to retain a maximum of 10 % of the risk premiums as its profit share for guaranteeing the risk benefits. A minimum of 90 % goes to the insured persons in the form of current and future benefits.

The difference between risk premiums on the one hand and benefits and changes to provisions on the other was CHF 83 million in 2020 (CHF 66 million lower than in the prior year). Revenues from risk premiums rose by CHF 41 million, while direct benefit payments increased by CHF 97 million, whereas changes to provisions for expected disability cases were down CHF 11 million year-on-year.

The result from the risk process was correspondingly lower than in 2019.



Risk process

	2020	2019	2018	2017	2016	2015	2014
Risk premiums	372	331	557	509	533	572	568
Risk benefits	– 311	– 214	– 326	– 284	– 302	– 275	– 240
Provisions for expected disability (IV) cases	23	32	142	5	– 2	– 2	– 73
Result of risk process	83	149	373	231	229	296	256

Monetary amounts in CHF millions

Surplus fund

Explanations
Life insurers provide security at all times, which is why they calculate their premiums in such a way that all risks can be covered over the long term. As a consequence of this, they generate a surplus (which is allocated to the insured persons) when business performance is good – i.e. when their earnings are greater than their expenses.

By law, no more than two thirds of the surplus fund may be withdrawn in any one year. Every allocation must be paid out to the insured persons within five years. This mechanism ensures that sufficient funds are available to offset poor results in difficult years and that the fund is built up again in good years, an approach that complies with the principles of sustainability and stability in occupational benefits insurance.

	2020	2019
As at end of previous year	237	1,013
Distribution to occupational benefits institutions (allocation of surpluses)	– 177	– 948
Surplus participation, current year allocation of surpluses)	153	173
Withdrawal to cover the operating shortfall	0	0
Valuation adjustment	0	0
As at end of accounting year	214	237
of which tied assets	164	211
of which free assets	50	26

Monetary amounts in CHF millions

In 2020, AXA was able to allocate CHF 153 million to the surplus fund; of this, CHF 133 million originated from business subject to the MDR. The total allocation in the reporting year was CHF 20 million below the prior year’s figure.

Cost-of-living provision

Explanations
The cost-of-living provision is used to finance future inflation-related adjustments to current disability and survivors' pensions, as stipulated by law. It is funded by the cost-of-living premiums paid by active insured persons. Current pensions are generally adjusted for inflation every two years. A contribution to cost expenses is also taken from the cost-of-living provision.

Survivors' and disability pensions that have already been paid out for more than three years must be adjusted for inflation in line with the Swiss Consumer Price Index until the recipients reach regular retirement age. The Federal Social Insurance Office publishes the relevant tables annually.

	2020	2019
As at end of previous year	353	352
Cost-of-living premiums, gross	4	4
Cost expenses	– 3	– 2
Expenditure for COL increases in risk pensions	– 1	– 1
Reversal in favor of strengthening measures as per Art. 149 para. 1 letter a	0	0
Reversal in favor of surplus fund	0	0
Formation of additional cost-of-living provisions	0	0
As at end of accounting year	352	353

Monetary amounts in CHF millions

Operating expense and asset management costs

The operating and management costs of CHF 204 million include all acquisition and administrative expenses and consulting costs incurred due to AXA's business activities in connection with occupational benefits insurance.

To make the cost process more transparent, acquisition costs are reported in detail, with information provided on acquisition commissions as well as other general administration expenses, broken down into staff costs and material expenses.

Operating costs fell by CHF 16 million year-on-year to CHF 204 million, mainly due to lower administration expenses.

Asset management costs do not count toward operating expenses but are instead included in the income statement directly as part of the net return on investments. They amounted to CHF 97 million in 2020, a slight reduction compared with the prior year. Maintenance and servicing costs for properties were also lower year-on-year at CHF 28 million.

Breakdown of operating expense	2020		2019	
Commission paid to sales force	43		39	
Commission paid to brokers	21		20	
Other acquisition costs	13		12	
Acquisition costs	78	38.04 %	71	32.13 %
Benefit processing expenses	29	14.01 %	29	13.21 %
Marketing and advertising expenses	2	0.82 %	3	1.55 %
Other expenses for general administration	99	48.44 %	119	54.24 %
Reinsurers' share in operating expense	– 3	-1.30 %	– 2	– 1.13 %
Total net operating expense	204	100.00 %	220	100.00 %

	2020	2019
Costs of asset management without real estate maintenance	68	57
Capitalized costs	1	5
Costs of maintenance and servicing of real estate*	28	36
Kosten der Vermögensverwaltung mit Immobilienunterhalt	97	99

Monetary amounts in CHF millions

* The costs of maintenance and servicing of real estate are offset in the income statement directly against real estate income (net view).

We aim to bring the second pillar back onto a sound footing and offer sustainable solutions for the future.

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