Occupational benefits insurance

Operating statement 2019

Partially autonomous solutions are more attractive, fairer, and more flexible in every scenario. They offer better earnings opportunities for insured persons over the long term and thus the prospect of a larger pension.

Thomas Gerber
Head of Pensions, Assets
and Health, AXA Switzerland

OPA transformation pays off

As Switzerland's biggest insurer of SMEs, AXA has focused entirely on partially autonomous solutions since 2019. Other pension funds can benefit from AXA's experience as the market environment remains challenging.

"We took a bold step, and it paid off."

An interview with Thomas Gerber

Mr. Gerber, how has the first year after the changeover from full-value insurance to partially autonomous solutions gone for AXA? How would you assess AXA's current market position?
Last year went very well for us. We took a bold step, and it paid off. Whereas the focus in 2018 had been on supporting our existing customers, explaining the changes to them, and convincing them to accept the new solution, the important thing for us in 2019 was positioning ourselves in the marketplace as a provider of partially autonomous solutions. Having successfully done so, we started 2020 in excellent shape.

The reorientation of our collective foundations means that insured persons are benefiting from much higher interest on their retirement assets than the market average and also much lower overall costs. We've thus kept our word to our foundations and their customers and created a win-win-win situation for all concerned. This message has resonated on the market. We've seen a sharp increase in offers and contracts for 2020. We're facing the future from a strong market position and have set ourselves high aims for this year. We're well on the way toward regaining the market lead in occupational benefits insurance.

The market is going through sweeping changes. We are seeing a kind of "consolidation" among pension providers. What is your view on this?
The Swiss pension market really is undergoing a major transformation. There are around 1,600 pension schemes on the market today, compared with more than 2,900 back in 2004. That's a fall of 45 %. At the same time, the number of insured persons has risen from 3.2 million in 2004 to 4.2 million.

The remaining pension schemes are confronted with a number of challenges, including demographic change, the difficult capital market situation, the digital revolution, growing demand for state-of-the-art IT infrastructure, and an increased need for services such as case and care management. This makes managing a pension fund labor-intensive and time-consuming. Meanwhile, the importance of having a good pension solution is growing when it comes to attracting the best staff.

These trends are testing all occupational benefits providers equally, with the result that many foundations are being forced to reinvent themselves in order to preserve their appeal. At AXA, we've successfully transformed our own pensions business and gained valuable experience in the process. We want to share this experience with other providers and support them in their transformation process.

Back when we started our move toward a partially autonomous insurance model, our ambition was to play an active role in shaping the future of occupational benefits insurance and act as a dependable and innovative partner for our foundations and customers. Everyone involved must aim to bring the occupational benefits business back onto a sound footing.

Where do you see challenges for AXA going forward?
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. We want to be a proactive partner for our corporate customers, helping them to preserve and enhance the health and performance of their staff. For example, we recently started offering our OPA customers an innovative solution for fringe benefits that SMEs can use free of charge without adding to their administrative workload and thus increase their employees' purchasing power. We also want to relieve SMEs of accounting and other administrative tasks in future so they can have more time to focus on their core business and their staff.

Constance Reschke
Head of Occupational Benefits,
AXA Switzerland

Higher interest, larger pension

Partially autonomous solutions open up better long-term earnings opportunities for insured persons, meaning higher interest on their retirement assets. Alongside the conversion rate, this is one of the key factors in determining the eventual pension annuity.

"Fluctuations on the markets are a common occurrence. The numbers have to add up over the long term."

An interview with Constance Reschke

The AXA collective foundations made the leap from full-value insurance to semi-autonomy at the start of 2019. At the time, AXA promised insured persons up to 20 % more pension. Does that promise still hold?
Absolutely. We were able to pay our collective foundation customers around CHF 600 million more interest for 2019 than would have been possible with the previous full-value insurance. The first year of partial autonomy has thus paid off massively for insured persons. They're benefiting from lower premiums and much higher interest on their retirement assets – around 3.5 % on average in 2019. That's a full two and a half percentage points above what we could have achieved with the full-value insurance model and much higher than the minimum interest rate set by the Federal Council, which is 1 %.

Alongside the conversion rate, the interest paid on retirement assets and the related compound interest effect are key factors in determining the eventual pension annuity. Most of those insured through a partially autonomous solution can expect their occupational benefits to be around 20 % higher than under full-value insurance with the same income. That translates into several hundred francs a month.

The financial markets had a very good year in 2019. By contrast, 2020 is proving highly volatile in economic terms. Does that worry you?
Fluctuations on the capital markets, especially stock markets, are a common occurrence. We have a risk-conscious investment strategy with a high degree of diversification, and this has a stabilizing effect on performance and the coverage ratio. The numbers have to add up over the long term.

In fact, the positive market performance in 2019 wasn't just good for active insured persons, it also allowed the collective foundations to increase their financial risk capacity. They're very well placed both structurally and financially, with a high coverage ratio, a low technical interest rate, adequate conversion rates, and a low proportion of pensioners. This means that they can cushion the impact of fluctuations over time.

What about generational fairness? After all, the redistribution from active insured persons to pensioners was one of AXA's arguments for switching to partial autonomy.
Our collective foundations show a very good age structure and a high proportion of extra-mandatory pension assets. In addition, pension obligations were zero in 2019 and are set to be relatively small for the next few years, which significantly reduces the redistribution from active insured persons to pensioners.

How are the collective foundations performing in terms of new business?
Nine out of ten customers have opted for the new, partially autonomous solution, and new ones are being added all the time, from large corporations to SMEs. They've recognized the benefits AXA's partially autonomous solutions bring. We've seen a sharp increase in offers and contracts for 2020.

Besides the collective foundations, you have been responsible for reinsurance solutions for company and intercompany pension funds since 2019. These were also affected by the transformation. Have you noticed any impact, and what role do you see AXA playing in this area going forward?
It's correct that we're no longer offering full-value insurance solutions here either, and we've migrated the existing contracts to a new reinsurance solution. Our aim here was to develop concepts that are tailored to the individual needs of our customers and their insured persons.

We want to play an active role in creating sustainable, forward-looking occupational benefits insurance in all areas of our business. That's why we want to give company and intercompany pension funds the benefit of our experience with transformation and help them to develop total solutions that reinsure biometric risks and also take account of aspects such as governance, asset management, and care and case management services.

Daniel Gussmann
Chief Investment Officer,
AXA Switzerland

"Our portfolios are extremely well prepared for the future."

Sustainable and profitable

AXA manages pension assets for more than 40,000 companies in Switzerland. A risk-conscious investment philosophy and a contemporary best-in-class approach allow it to invest both securely and profitably.

An interview with Daniel Gussmann

Mr. Gussmann, you have worked at AXA Asset Management for 11 years, the last three of them as Chief Investment Officer (CIO). To what extent has the world of pensions changed during this time?
Things have definitely got tougher for pension funds. Bonds are the biggest asset class for Swiss pension funds, accounting for roughly a third of their invested assets, and negative yields have made it impossible to generate returns from them over the long term. However, the statutory conversion rate stipulated in the Occupational Pensions Act and the current retirement age mean that a certain target return is needed to fulfil pension obligations. Since negative interest rates will probably be around for a while, pension funds will continue to have difficulty generating the returns they need.

AXA Switzerland Asset Management handles assets of around CHF 100 billion. As an asset manager, how do you cope with this challenge?
Our portfolios are extremely well prepared for the future, so we're optimistic in that respect. We mange pension assets for more than 40,000 companies in Switzerland. Thanks to AXA's roots as an insurer, we've always taken care to invest our customers' premiums and pension contributions securely and profitably. That's why we got into interesting asset classes like Swiss real estate, Swiss mortgages, international real estate, corporate debt, and private equity at an early stage and built up expertise that allows us to make attractive, sustainable investments for the benefit of our customers.

The changeover from full-value insurance to partially autonomous solutions has additionally enabled us to increase equity allocations because we're no longer restrained by the strict regulations that apply to full-value insurance. This gives us more scope to take advantage of opportunities to achieve long-term returns for our insured persons. We're sticking to our risk-conscious investment philosophy and rigorously employing a contemporary best-in-class approach.

What do you mean by "best-in-class approach"?
We systematically seek out the best investment style (active or passive) and the best asset managers for each asset class. This independent best-in-class approach allows us to find the best possible investment opportunities with the greatest potential to deliver returns for our customers. We take exactly the same approach with our own pension fund. We invest our customers' assets in accordance with the same principles used for our own staff's retirement assets.

In your view, what role do sustainable investments play?
As an insurance company, we're directly affected by climate events, so we strive to assume a pioneering role in this respect. We firmly believe that responsible, sustainable use of all resources adds value over the long term – for our customers and for society at large.

With this in mind, we incorporate sustainability criteria into all investment decisions and invest strategically in companies that operate sustainably. We don't think any business that isn't sustainable is appropriate for our investments or insurance coverage.

How is this reflected in your actual customer portfolios?
AXA was the first insurer to announce that it will successively pull out of investing in the coal industry. We aim to completely eradicate coal from the global energy mix. In line with the Paris Agreement on climate change, we've set ourselves the target of limiting the global warming potential of our own investments to less than 1.5°C by 2050. We also keep a blacklist that's updated regularly. So far, we've assessed over 7,000 firms on the basis of our environmental, social, and governance standards, which we implement rigorously. We restrict or completely rule out investments in certain sectors and industries. The exclusion criteria include tobacco producers, palm oil producers that are associated with the destruction of rain forest, tar sand and shale oil firms, and all companies that derive more than 20 % of their revenues from coal mining or the generation of energy from coal.

Key data

Number of insured persons
At the end of 2019, AXA had 505,283 insured persons with occupational benefits insurance. This figure includes 332,363 active insured persons, 68,118 pension recipients, and 104,802 vested benefits policies.

The portfolio of insured persons decreased by 81,346 or 13.9 % year-on-year. This trend was reflected in the numbers of active insured persons (down 72,873), pension recipients (down 2,836), and vested benefits policies (down 5,637). It is largely attributable to the transformation of the full-value insurance foundations to a partially autonomous model.

Conversion rates
The statutory pension conversion rate for mandatory benefits remains at 6.8 %. On the other hand, life insurers have some leeway as regards the conversion rate for extra-mandatory benefits. AXA kept this rate unchanged compared with the previous year at 5 %.

Costs for active insured persons
Operating expense for active insured persons decreased year-on-year from CHF 203 million to CHF 186 million. This decrease is due to the one-off additional expense in 2018 caused by the conversion of the collective foundations from full-value insurance to partial autonomy. Cost per active insured person rose by CHF 56 to CHF 558 as a result of the disproportionate fall in the number of insured persons.

	2019		2018	
Existing customer base at end of accounting year	505,283		586,629	
Number of active insured persons	332,363		405,236	
Number of persons with full-value insurance	45,748		263,282	
Number of other active insured persons	286,615		141,954	
Number of pension recipients	68,118		70,954	
Number of vested benefits policies	104,802		110,439	
Interest and conversion rates	**Mandatory benefits**	**Extra-mandatory benefits**	**Mandatory benefits**	**Extra-mandatory benefits**
Effective interest rate including surplus participation	1.00 %	0.25 %	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	0.80 %		1.00 %	
	Total in millions	**per capita**	**Total in millions**	**per capita**
Total cost premium	148		189	
Active insured persons	148	445	189	467
Vested benefits policies / per policy	0	0	0	0
Other cost premiums	0	0	0	0
Total operating expense	220		238	
Operating expense ex pension recipients	191		208	
Active insured persons	186	558	203	502
Vested benefits policies	5	48	5	46
Operating expense for other cost units	0		0	0
Operating expense for pension recipients	29		30	
Pension recipients	29	426	30	419

Monetary amounts in CHF

Income statement

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 69.5 % year-on-year due to the transformation of the full-value insurance foundations to a partially autonomous model, as a result of which a significant proportion of savings premiums were no longer booked to AXA's income statement. Premium income in Group Life fell by 75.0 % or CHF 5.1 billion to CHF 1.7 billion – single premiums decreased by 73.7 % to CHF 922 million, while annual premiums were 76.4 % lower at CHF 776 million. Investment income also fell sharply – by CHF 541 million to CHF 761 million – due to the transfer of investments to the foundations.

The remaining single premiums and savings premiums originate from insurance contracts with other occupational benefits institutions (e.g. company-owned foundations and associations). Risk and cost premiums were down CHF 274 million, largely as a result of tariff reductions in connection with the transformation. On a like-for-like basis, the premium decline was only around 2.4 %.

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 increased by CHF 17.3 billion to CHF 27.1 billion in the reporting year. This increase is due to higher expenditure for surrenders, with all other benefits showing a year-on-year decrease. The main reason for the high surrender expenditure was the transfer of retirement assets to the foundations following the transformation.

In 2019, the technical provisions decreased by CHF 25.1 billion (prior year: decrease of CHF 3.1 billion). Retirement assets fell by CHF 24.6 billion, primarily as a result of the transfer to the foundations. 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 a further CHF 83 million. The actuarial reserve for vested benefits policies was reduced by a further CHF 144 million thanks to the smaller portfolio (prior year: reduction of CHF 179 million). The actuarial reserve for current retirement and survivors' pensions was also reduced for the same reason. The actuarial reserve for current disability pensions was reduced by CHF 223 million due to a positive trend (prior year: reduction of CHF 39 million). Thanks to low annuitization losses, CHF 116 million from current account for the savings process was allocated to the fluctuation and interest guarantee provisions.

The allocation to the surplus fund in favor of insured persons fell to CHF 173 million; this was mainly because a larger amount had been released from the provision for future conversion rate losses and passed on to the insured persons in 2018. In 2019, acquisition and administrative expenses together with other expenses were lower year-on-year at CHF 207 million, mainly as a result of lower acquisition costs. The operating result for 2019 amounted to CHF 127 million (before tax). The fall of CHF 64 million is mainly attributable to lower investment income as well as lower cost and risk premiums.

Income	2019	2018
Retirement credits	235	2,473
Individual deposits due to start of employment, purchases, PHO or divorce	820	2,987
Retirement assets brought in connection with contract transfers	12	427
Deposits for retirement and survivors' pensions	40	58
Deposits for disability pensions and disabled person's child's pensions	48	39
Deposits for vested benefits policies	2	2
Savings premiums	**1,157**	**5,984**
Risk premiums	**393**	**625**
Cost premiums	**148**	**189**
Gross premiums written	**1,698**	**6,799**
Gross investment income	819	1,523
Cash and cash equivalen	0	0
Bonds	215	553
Properties	141	405
Mortgages	88	124
Other investments	87	441
Result from disposals	422	116
Balance from write-ups and write-downs	– 23	333
Currency result	– 88	– 380
Interest expense	– 24	– 54
Asset management fees	– 57	– 236
Net investment income	**761**	**1,302**
Other income	**13**	**15**
Reinsurance result	**3**	**– 8**
Income	**2,476**	**8,108**

Expenditure	2019	2018
Benefits on retirement	997	1,455
Pension benefits	796	797
Lump sum benefits	201	658
Death and disability benefits	466	532
Pension benefits	374	412
Lump sum benefits	92	120
Individual lump-sum benefits (vested benefits, PHO, divorce, VBP)	1,032	3,733
Surrender values from contract terminations	24,590	4,088
Benefit processing expenses	29	30
Benefits	**27,114**	**9,837**
Retirement assets	– 24,564	– 2,957
Provision for future conversion rate losses	– 83	– 733
Actuarial reserves for current retirement and survivors' pensions	– 222	514
Actuarial reserves for current disability pensions and disabled person's child's pensions	– 223	– 39
Actuarial reserves for vested benefits policies	– 144	– 179
Actuarial reserves for other coverages	0	0
Strengthening of actuarial reserves for annuity capital and vested benefits policies	58	312
Provision for insurance cases which have occurred but have not yet been settled	– 28	– 9
Fluctuation and interest guarantee provisions	116	0
Cost-of-living provisions	0	– 299
Other technical provisions	– 56	276
Change in technical provisions	**– 25,145**	**– 3,114**
Allocation to surplus fund	**173**	**968**
Change in unearned premium reserves	**0**	**0**
Acquisition and administrative expenses	**193**	**212**
Other expenses	**14**	**15**
Operating result	**127**	**191**
Expenditure	**2,476**	**8,108**

Monetary amounts in CHF millions

Balance sheet: key figures

Explanations regarding the liabilities side
The most important element of the transformation was the transfer of retirement assets to the foundations. These fell sharply from CHF 28.3 billion to CHF 3.2 billion. The remaining retirement assets originate from insurance contracts with company-owned and association-run foundations. 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 was released – CHF 783 million in 2018 and a further CHF 83 million in 2019 – and paid into the surplus fund in the corresponding year, then paid out to the foundations involved in the transformation as a special surplus the following year.

Other liabilities declined mainly as a result of lower liabilities toward policyholders following the changeover to a partially autonomous model.

Explanations regarding the assets side
The investments were transferred to the foundations 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 foundations. 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	2019		2018	
Cash and cash equivalents, time deposits	76	0.31 %	9,370	17.86 %
Bonds in Swiss francs	10,728	44.24 %	12,065	22.99 %
Bonds in foreign currencies	2,808	11.58 %	11,407	21.74 %
Properties	2,815	11.61 %	7,978	15.20 %
Mortgages	4,593	18.94 %	6,132	11.69 %
Equities and participating interests	565	2.33 %	1,401	2.67 %
Alternative investments	1,364	5.62 %	2,474	4.72 %
Investment fund units	1	0.00 %	178	0.34 %
Net credit balances from derivative financial instruments	15	0.06 %	15	0.03 %
Other investments	1,286	5.30 %	1,453	2.77 %
Total investments	**24,251**	**100.00 %**	**52,475**	**100.00 %**
Liabilities from derivative financial instruments	**672**		**655**	
Other assets	**1,120**		**2,051**	
Ceded reinsurance	**42**		**55**	
Total net assets	**26,085**		**55,236**	

Liability items

Liability items	2019		2018	
Retirement assets	3,239	13.20 %	28,282	56.21 %
of which mandatory benefits	1,794		14,361	
of which extra-mandatory benefits	1,445		13,921	
Provision for future pension conversion rate losses	77	0.31 %	177	0.35 %
of which mandatory benefits	9		122	
of which extra-mandatory benefits	68		55	
Actuarial reserves for current retirement and survivors' pensions	13,580	55.36 %	13,894	27.61 %
of which mandatory benefits	6,608		7,644	
of which extra-mandatory benefits	6,972		6,250	
Actuarial reserves for current disability pensions and disabled person's child's pensions	1,369	5.58 %	1,611	3.20 %
of which mandatory benefits	776		920	
of which extra-mandatory benefits	593		691	
Actuarial reserves for vested benefits policies	1,444	5.88 %	1,588	3.16 %
Strengthening of actuarial reserves	3,522	14.36 %	3,492	6.94 %
Provision for insurance cases which have occurred but have not yet been settled	346	1.41 %	377	0.75 %
Provisions for interest guarantees, claims fluctuations and value fluctuations	316	1.29 %	200	0.40 %
Other technical provisions	286	1.17 %	342	0.68 %
Cost-of-living provisions	353	1.44 %	352	0.70 %
Technical provisions	**24,532**	**100.00 %**	**50,314**	**100.00 %**
Surplus fund	**237**		**1,013**	
Unearned premium reserves	**0**		**0**	
Credited surplus portions	**0**		**0**	
Other liabilities	**1,316**		**3,909**	
Total net assets	**26,085**		**55,236**	

Monetary amounts in CHF millions

Investments

AXA aims to achieve the optimum combination of profitability, liquidity, and security when managing its investments. It has been investing for some years now to enhance its asset-liability management (ALM) capability. The analyses and findings from this process provide the basis for an investment strategy that aims to optimize the risk-return ratio of the portfolio as well as the level of risk capital. It is vital to ensure 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 our principle of security, 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 bonds and mortgage bonds. As they are considered to be virtually risk-free, they offer correspondingly low returns.

The decrease in all asset classes compared with the prior year is attributable to the transformation of the full-value insurance foundations to a partially autonomous model as of January 1, 2019.

Net credit balances from derivative financial instruments mainly comprise derivatives for currency hedging and the corresponding collateral deposited.

The "Other investments" item comprises mortgages, loans, and cash and cash equivalents, the latter in particular being significantly lower than in 2018 as a result of the transformation.

The valuation reserves show the difference between market and book values. The decrease is also driven by the transformation and the corresponding reduction in investments.

Investments	2019		2018	
	Book value	Market value	Book value	Market value
Real property and buildings	2 815	3 745	7 978	10 770
Shares in real estate companies	198	398	198	376
Shares in associated companies	0	0	0	0
Participations	0	0	0	0
Equities and units in investment funds	367	414	1 381	1 685
Own equities	0	0	0	0
Fixed-interest securities	13 536	15 370	23 473	24 973
Hedge funds	297	339	787	1 026
Private equity	1 067	1 125	1 687	1 967
Net credit balances from derivative financial instruments	15	15	15	15
Other investments	5 955	5 955	16 955	16 955
Total investments	**24 251**	**27 361**	**52 475**	**57 768**
Share of collective investments		3,58 %		3,19 %
Share of investments with non-specified costs		1,75 %		2,34 %
Valuation reserves at the end of the accounting year		**3 110**		**5 293**
Change in valuation reserves compared to previous year		**– 2 183**		**– 777**

Monetary amounts in CHF millions

Trend of return on investments	2019	2018
Direct earnings from investments	532	1 523
Other investment income	287	15
Result from disposals	422	116
Balance from write-ups and write-downs	– 23	333
Currency result	– 88	– 380
Interest expense	– 24	– 54
Investment income, gross	**819**	**1 538**
Asset management costs	– 57	– 236
Investment income, net	**761**	**1 302**
Asset management without real estate maintenance	– 57	– 236
Maintenance and servicing of real estate*	– 36	– 80
Total asset management costs	**– 94**	**– 317**

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 earned and performance of investments

The gross return on investments of CHF 819 million corresponds to a return on book values of 2.13 % (prior year: 2.88 %). After deduction of asset management costs, the net return was 1.98 %. Gross returns are quoted before deduction of asset management costs, while net returns are quoted after deduction of total expense ratio (TER) costs.The lower return on book values is attributable to the transformation of the full-value insurance foundations to a partially autonomous model, which led to (among other things) a lower-risk asset allocation.

The returns shown in this table are negatively affected by the transformation because investments and corresponding valuation reserves were transferred to the foundations as of January 1, 2019. Excluding the investments transferred to the foundations, the net market value performance in 2019 was 3.58 %, the gross market value performance 3.78 %.

Asset management costs amounted to CHF 99 million in 2019. The year-on-year decrease of CHF 220 million is due to the transformation of the full-value insurance foundations to a partially autonomous model and the resulting fall in investment volume. At CHF 36 million, maintenance and servicing costs for properties were also lower year-on-year.

Return and performance

	2019		2018	
	Gross	Net	Gross	Net
Total return on book values	2.13 %	1.98 %	2.88 %	2.44 %
Market value performance	– 3.21 %	– 3.34 %	1.29 %	0.89 %

Asset management fees

	2019	2018
Direct investments	– 69	– 176
Single- and multiple-level investments	– 9	– 53
TER costs	– 78	– 228
TTC costs	– 9	– 70
SC costs	– 12	– 20
Asset management costs (gross)	– 99	– 319
Capitalized costs	5	2
Maintenance and servicing costs for properties	36	80
Asset management costs (net)	– 57	– 236

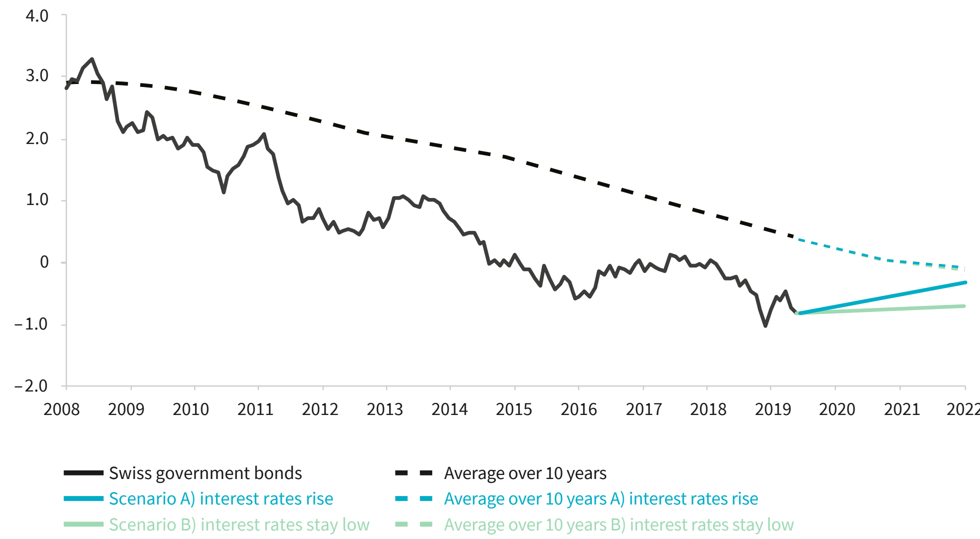
Monetary amounts in CHF millions

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 2020

Despite various sources of uncertainty persisting into 2019, such as Brexit, the trade conflict between the US and China, and tensions with Iran, the global stock and bond markets quickly recouped their heavy losses from 2018 and climbed to new highs by the end of the year. Capital markets posted further gains at the start of 2020, before reports relating to the spread of the new coronavirus brought the uptrend to an abrupt end. Saudi Arabia's announcement that it intended to increase crude oil production additionally exacerbated the uncertainty. The result was double-digit percentage losses on the stock markets and a spike in corporate bond yields as well as general yield levels as fears of rising default and credit risks caused selling pressure to increase. Yields on ten-year Swiss Confederation bonds remain very low. The current uncertainty can be expected to hold sway for the next few months. Fiscal and monetary policy measures to stimulate the economy, together with measures to rein in the pandemic, will play a central role. In volatile market phases like this, it is 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 to February 2020

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 90.1 %, 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

	2019		2018	
	Subject to MDR	Not subject to MDR	Subject to MDR	Not subject to MDR
Sum of income components	**1,228**	**74**	**2,035**	**82**
Saving process (income from investments)	761	0	1,302	0
Risk process (risk premiums)	331	62	557	68
Cost process (cost premiums)	136	12	176	13
Total expenditure	**– 875**	**– 36**	**– 1,659**	**– 21**
Saving process (mainly technical interest)	– 476	0	– 1,133	0
Risk process (mainly death and disability benefits)	– 214	– 30	– 326	– 12
Cost process (mainly administrative costs)	– 185	– 6	– 200	– 8
Gross result, operating statement	**353**	**38**	**376**	**61**
Change in technical provisions in the saving process	**– 127**	**0**	**569**	**0**
Longevity risk	– 94	0	– 465	0
Gaps in coverage on conversion into pensions	83	0	733	0
Interest guarantees	– 60	0	0	0
Reversal of cost-of-living provisions in favor of strengthening measures	0	0	300	0
Fluctuations in value of investments	– 56	0	0	0
Change in technical provisions in the risk process	**32**	**3**	**142**	**11**
Insurance cases reported but not yet settled	32	3	142	11
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	**– 95**	**3**	**711**	**11**
Cost of raising additional risk capital	**0**	**0**	**0**	**0**
Allocation to surplus fund	**– 136**	**– 36**	**– 904**	**– 64**
Result, operating statement	**122**	**5**	**183**	**8**
Dividend ratio	**90.07 %**	**93.23 %**	**91.00 %**	**90.73 %**
Recapitulation of the operating result				
Share of business subject to MDR	122		183	
Share of total income as %	9.93 %		9.00 %	
Share of business not subject to MDR		5		8
Share of total income as %		6.77 %		9.27 %
Operating result	**127**		**191**	
Share of total income as %	9.75 %		9.01 %	
Surplus fund	**188**	**49**	**959**	**54**

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 partial autonomy.

Change to technical provisions
Technical provisions are reserves that AXA uses to strengthen its ability to meet future challenges. After these were strengthened to a considerable extent in 2018, smaller changes were made in 2019. Adding CHF 94 million to the provision for longevity risk permitted a reduction of the technical interest rate from 1.0 % to 0.8 %. It was also possible to strengthen the fluctuation reserves for interest rates and investments by CHF 116 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 partial autonomy and the resultant assumption of annuitization losses by the foundations. It was thus possible to allocate CHF 83 million to the surplus fund, which will benefit the insured persons in 2020.

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 1,106 million went to insured persons in 2019 – in the form of insurance benefits, strengthening reserves, and allocations to the surplus fund. This equates to a distribution ratio of 90.1 %. AXA's profit – the remaining 9.9 % – was CHF 122 million (before tax) in 2019.

How the minimum distribution ratio is calculated

		2019		2018
Saving process	Income from investments	761		1,302
Risk process	Premium income from death and disability insurance	331		557
Cost process	Premium income for operations and service	136		176
Sum of income components		1,228		2,035
At least 90 % of the income components go to insured persons in the form of benefits.		90.1 %		91.0 %
Use for the following benefits for insured persons:				
1. Interest on retirement assets of insured persons and conversion losses		Total – 875	– 1,133	Total – 1 659
2. Benefits in the event of disability and death			– 326	
3. Administration, operations, and service			– 200	
Formation of reserves for future benefits for insured persons				
1. Longevity		Total – 95	– 465	Total 711
2. Gap in coverage on conversion into pensions			733	
3. Interest guarantees due to persistent low interest rate phase			0	
4. Reversal of cost-of-living provisions in favor of strengthening measures			300	
5. Fluctuations in value of investments			0	
6. Expected benefit cases due to disability			142	
Allocation to surplus fund to be used for insured persons		– 136		– 904
Total benefits allocated to insured persons		– 1,106		– 1,852
The profits of life insurers are limited by law and cannot exceed 10 % of the income components.		9.9 %		9.0 %
Operating result for AXA Life Ltd. from business subject to MDR (gross before tax)		122		183

Monetary amounts in CHF millions

Risk process

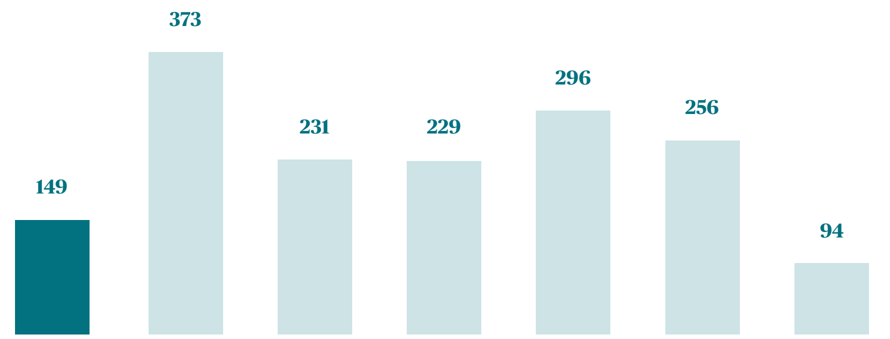
Explanations
The risk process comprises income from risk premiums, expenses in the form of death and disability benefits, the formation and/or reversal of technical provisions, and allocations to the surplus fund.

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 149 million in 2019 (CHF 224 million lower than in the previous year). Revenues from risk premiums fell by CHF 226 million, while direct benefit payments decreased by CHF 112 million, and changes to provisions for expected disability cases were down CHF 110 million year-on-year.

The result in the risk process was depressed primarily by lower risk premiums. The transformation made it possible to reduce the level of premiums for customers. In addition, some of the result can be paid out in the form of surpluses instead of having to be used to fund the deficit in the saving process.

This basic principle applies to business subject to the MDR: higher benefit expenditure and the formation of provisions for future benefits to insured persons result in fewer allocations to the surplus fund, and vice-versa.



Risk process

	2019	2018	2017	2016	2015	2014	2013
Risk premiums	331	557	509	533	572	568	577
Risk benefits	– 214	– 326	– 284	– 302	– 275	– 240	– 322
Provisions for expected disability (IV) cases	32	142	5	– 2	– 2	– 73	– 160
Result of risk process	149	373	231	229	296	256	94

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.

	2019	2018
As at end of previous year	1,013	251
Distribution to occupational benefits institutions (allocation of surpluses)	– 948	– 205
Surplus participation, current year allocation of surpluses)	173	968
Withdrawal to cover the operating shortfall	0	0
Valuation adjustment	0	0
As at end of accounting year	237	1,013
of which tied assets	211	901
of which free assets	26	112

Monetary amounts in CHF millions

In 2019, AXA was able to allocate CHF 173 million to the surplus fund; of this, CHF 136 million originated from business subject to the MDR. The total allocation in the reporting year was CHF 795 million below the prior year's figure. The significantly lower allocation is due mainly to the higher reversal in 2018 of provisions that were no longer required for gaps in coverage for future pension conversions.

In 2019, CHF 948 million was allocated from the surplus fund to persons insured with AXA; CHF 907 million of this came from business subject to the MDR. This allocation is not sufficient to comply with the two-thirds rule mentioned above. A special exemption has been obtained from FINMA for this purpose.

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.

	2019	2018
As at end of previous year	352	651
Cost-of-living premiums, gross	4	4
Cost expenses	– 2	– 3
Expenditure for COL increases in risk pensions	– 1	– 0
Reversal in favor of strengthening measures as per Art. 149 para. 1 letter a	0	– 300
Reversal in favor of surplus fund	0	0
Formation of additional cost-of-living provisions	0	0
As at end of accounting year	353	352

Monetary amounts in CHF millions

Operating expense and asset management costs

The operating and management costs of CHF 220 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 18 million year-on-year to CHF 220 million, mainly due to lower acquisition costs.

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 99 million in 2019. The year-on-year decrease of CHF 220 million is due to the transformation of the full-value insurance foundations to a partially autonomous model and the resulting fall in investment volume. At CHF 36 million, maintenance and servicing costs for properties were also lower year-on-year.

Breakdown of operating expense	2019		2018	
Commission paid to sales force	39		36	
Commission paid to brokers	20		38	
Other acquisition costs	12		12	
Acquisition costs	71	32.13 %	86	36.07 %
Benefit processing expenses	29	13.21 %	30	12.49 %
Marketing and advertising expenses	3	1.55 %	4	1.57 %
Staff costs	82		85	
Material expenses (including IT costs)	37		38	
Other expenses for general administration	119	54.24 %	122	51.30 %
Reinsurers' share in operating expense	– 2	– 1.13 %	– 3	– 1.42 %
Total net operating expense	220	100.00 %	238	100.00 %
Costs of asset management without real estate maintenance	57		236	
Capitalized costs	5		2	
Costs of maintenance and servicing of real estate*	36		80	
Kosten der Vermögensverwaltung mit Immobilienunterhalt	99		319	

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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17146EN – BV D – 2020-05