



Occupational benefits insurance



Operating statement 2022

There is demand for modern pension solutions	4–5
Sustainable growth, even in a year of crisis	6–7
Very well placed both financially and structurally	8–9
Key data	10–11
Income statement	12–13
Balance sheet: key figures	14–15
Investments	16–19
Minimum distribution ratio (MDR)	20–23
Risk process	24
Surplus fund	25
Cost-of-living provision	26
Operating expense and asset management costs	27

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

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

There is demand for modern pension solutions

AXA's occupational benefits solutions in the second pillar provide SMEs and their staff with flexible pension models, attractive fringe benefits, and a comprehensive health promotion offering.

“We see modernizing occupational benefits insurance and aligning it better with today's reality as important.”

An interview with Thomas Gerber

Mr. Gerber, you set a clear precedent with the decision to switch to semi-autonomy in 2019. Now the environment is starting to change, will you be changing your strategy?

Even with interest rates on the rise, I'm convinced that our strategic positioning with the various semi-autonomous collective foundation solutions is proving its worth in the marketplace and that we can continue to win new customers going forward. I don't expect full-value insurance to make a comeback.

Another key element of our strategy that sets us apart from autonomous collective foundations is the cooperation with the Boards of Trustees. We have a number of different collective foundations that benefit from effective governance by a Board of Trustees.

On top of this, we're a leading asset manager with access to attractive investments on the best terms, and we have a strong sales operation with our own sales force and professional service for independent brokers. Our administration boasts a very high quality of service, and we generate useful customer and sales interactions with our corporate portal and pension portal for insured persons.

We also provide outstanding supplementary services, such as our broad employee health offering WeCare and the fringe benefits platform Swibeco, all under the strong AXA brand.

That's why I'm confident that our chosen strategy will continue to help us stand out and enable steady, sustainable growth.

How do you view the situation in the second pillar in view of the pending reform proposal?

AXA welcomes the overall package. I believe it's important to lower the conversion rate from 6.8% to 6.0% right away. This will counteract the redistribution from those who are still in paid employment in favor of pensioners, which is especially high for ancillary OPA funds. I view the compensation measures as a political compromise.

We see modernizing occupational benefits insurance and aligning it better with today's reality as important, and that means accommodating people who work part-time or have multiple jobs and paying more attention to work/life balance.

I think it makes sense to reduce the coordination deduction and make it more flexible, since this will result in a higher insured salary and thus benefit people on lower incomes and part-time workers in particular.

Employee health is also vital to companies' long-term success. What role does it play in occupational benefits insurance?

Employee health is essential to a company's long-term success. By caring about the health and wellbeing of its staff, a company shows that it's prepared to invest in them. This increases employee satisfaction and thus makes the company a more attractive employer.

With WeCare, AXA has developed a comprehensive offering dedicated entirely to employee health in the workplace. It gives companies access to a large selection of preventive services for improving employee health as well as the professional support of Care and Case Management for potential long-term absences.



Jürgen Scharfetter
Head of Occupational Benefits,
AXA Switzerland

Sustainable growth, even in a year of crisis

AXA's semi-autonomous collective foundations have paid out around CHF 2 billion more in interest to insured persons over the past four years than they would have been able to with full-value insurance. The semi-autonomous model is proving its worth in these challenging times and supporting the AXA collective foundations' sustainable growth.

An interview with Jürgen Scharfetter

Mr. Scharfetter, how satisfied are you with the results for 2022?

I'm very satisfied. AXA Switzerland took the strategic decision together with the Boards of Trustees back in 2018 to switch from full-value insurance to semi-autonomous solutions in its occupational benefits business from 2019. This attracted a great deal of attention, but it has once again paid off for our customers.

AXA's semi-autonomous collective foundations performed very well from the outset and have continued to do so for the past four years. They are posting significant growth while also improving their structures to ensure sustainable success. They also weathered the two difficult years dominated by the coronavirus pandemic and the tough environment for financial markets in 2022 very well.

Over the past three years, AXA has posted its best ever results in terms of new OPA business. In 2022, it was up 46% at CHF 655 million, the second-best result in our company's history since the OPA was introduced.

What I find most pleasing is the fact that the AXA collective foundations have been able to credit over CHF 2 billion more in interest income to their insured persons since the switch to semi-autonomy in 2019 than would have been possible with fullvalue insurance. This is really what we set out to do: make sure that insured persons have a much better chance of receiving a sufficient pension to maintain the standard of living they're used to after they retire thanks to higher interest.

“We develop holistic offerings for Swiss SMEs that go way beyond pensions.”

The economic situation was highly challenging in 2022. How does it look today?

Last year was indeed a very turbulent one. The geopolitical situation, the threat of an energy crisis, and the return of inflation had a significant impact. The turnaround in interest rates and the resulting trend on the capital markets posed a huge challenge for all pension funds in Switzerland. The AXA collective foundations were affected too, and it was also difficult to gauge how things would pan out in 2023.

Thanks to the collective foundations' good structural risk capacity, the breadth of our offering, and our partnership with the Boards of Trustees, we headed into 2023 on a solid footing despite the challenges faced in 2022.

Looking ahead, how do you intend to develop the business going forward?

We would like to play an active role in shaping occupational benefits insurance over the long term – with regard to sustainable investments as well as from a social and social policy perspective.

As an insurer, we are part of society and bear a special responsibility. With this in mind, we develop solutions that offer our customers holistic support. This means that we have to adapt to today's employment models and lifestyles.

We also support our corporate customers with valuable supplementary services like our comprehensive employee health promotion offering.

Last but not least, AXA acts as an ambassador for the second pillar, sharing responsibility for the future of the Swiss pension system by working together with our collective foundations and functioning as a center of expertise for occupational benefits insurance. We have the know-how to move regulatory reforms concerning pensions and healthcare policy forward.

Working together with our AXA collective foundations, we foster a strong partnership in the second pillar based on good governance, clear processes, and transparency.

Very well placed both financially and structurally

AXA Asset Management develops tailored investment strategies both for the Group's own insurance companies and for collective foundations and pension funds. In doing so, it pursues a risk-aware investment approach, consistently based on an independent best-in-class principle, to achieve the best possible returns over the long term.

Daniel Gussmann
Chief Investment Officer,
AXA Switzerland

An interview with Daniel Gussmann

Mr. Gussmann, what is your view regarding the current situation on the markets?

There are various challenges feeding off each other at the moment, from the war in Ukraine to the shortage of oil and gas and the after-effects of China's "zero-COVID" strategy.

On top of all this, we have inflation, and we don't know how long it will last, although it's proving to be more persistent than we originally assumed. Following supply chain issues caused by the pandemic and higher commodity and energy prices due to the war and the artificial reduction in supply, tight job markets are now fueling inflation as well.

The key question is whether the central banks can strike the right balance with rate hikes to weaken inflation significantly and above all in good time without triggering a recession. It's a very delicate process that requires good communication on their part.

You and your team manage pension assets for the AXA collective foundations as well as other pension institutions in Switzerland. What investment principles do you follow?

Many SMEs in Switzerland, along with quite a few large companies, have affiliated to an OPA collective foundation. Each foundation's Board of

“Occupational benefits insurance involves saving over a period of decades, and our investment strategies are geared to this.”

Trustees decides on its own long-term investment strategy. We implement these within the regulatory restrictions and in line with a risk-aware investment approach as well as clearly defined sustainability criteria and an independent best-in-class principle. This means that we systematically seek out the best investment style and the best asset managers for each asset class. We do exactly the same for AXA's own staff pension fund.

How safe are pension assets with the AXA collective foundations?

AXA's collective foundations are well positioned both financially and structurally. Compared with other pension funds, for example, they have very low pension obligations. This is one of the reasons why they are resilient enough to withstand poor years on the markets. Their portfolios are also broadly diversified, which adds to their stability.

Occupational benefits insurance involves saving over a period of decades, and our investment strategies are geared to this. Equities, for instance, are the most volatile asset class, but they also offer the highest returns over the long term. Sound risk analysis is therefore essential. The individual foundations define their investment strategy based on their structural and financial risk capacity and future obligations, and this forms the basis for their specific mix of investments.

What role do sustainability criteria play in your investment decisions?

We incorporate sustainability criteria into our investment decisions from a variety of different perspectives. Besides protecting and preserving the natural world, these also include aspects of social justice and responsible corporate governance.

AXA excludes certain companies and sectors entirely, in line with its environmental, social, and governance (ESG) guidelines. Companies in the tobacco industry, palm oil producers that are associated with the destruction of rain forest, and companies in the coal industry are just a few examples.



Key data

Number of insured persons

At the end of 2022, AXA had 556,103 insured persons with occupational benefits insurance. This figure includes 408,691 active insured persons, 61,437 pension recipients, and 85,975 vested benefits policies.

The portfolio of insured persons increased by 23,727 or 4.5% year-on-year. The trend in new business was positive thanks to the appeal of our semi-autonomous model, which explains the increase of 33,081 in the total number of active insured persons.

The number of insured persons with full-value insurance fell further due to the transformation of the occupational benefits business to a semi-autonomous model, which began in 2019. The vast majority of insured persons are now taking advantage of our semi-autonomous solutions.

Costs for active insured persons

Operating expense for active insured persons increased from CHF 168 million in 2021 to CHF 173 million in 2022 as a result of continued growth in acquisition costs, among other factors. Administrative expenses also increased slightly. The disproportionate increase in the number of active insured persons nevertheless caused costs per active insured person to fall significantly – by 6% to CHF 422.

	2022		2021	
Existing customer base at end of accounting year	556,103		532,376	
Number of active insured persons	408,691		375,610	
Number of persons with full-value insurance	881		24,119	
Number of other active insured persons	407,810		351,491	
Number of pension recipients	61,437		65,022	
Number of vested benefits policies	85,975		91,744	
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%	0.00%
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	0.55%		0.55%	
	Total in millions	per capita	Total in millions	per capita
Total cost premium	163	293	148	279
Active insured persons	163	399	148	395
Vested benefits policies / per policy	0	0	0	0
Other cost premiums	0	0	0	0
Total operating expense	209	375	202	380
Operating expense ex pension recipients	177		172	
Active insured persons	173	422	168	447
Vested benefits policies	4	52	5	50
Operating expense for other cost units	0		0	
Operating expense for pension recipients	32		30	
Pension recipients	32	514	30	457

Monetary amounts in CHF



Income statement

Income

In occupational benefits insurance, the total income consists mainly of savings premiums, risk premiums, and cost premiums together with investment income.

Gross premiums written showed impressive growth of 4.8%. The continued positive trend in new business proves how attractive our semi-autonomous solutions are and caused an increase of approximately 11% in risk and cost premiums.

Net investment income, on the other hand, was lower year-on-year. This was caused by the fall in direct investment income as well as higher write-downs on fixed-interest securities and equities.

Expenditure

The most important items making up overall expenditure are benefits paid out to insured persons, the change in technical provisions, acquisition and administrative expenses, and the allocation to the surplus fund in favor of insured persons.

Benefits rose by CHF 81 million to CHF 3,5 billion in the reporting year, mainly as a result of an increase in surrender values in 2022. This was caused by the termination of a reinsurance agreement between AXA Life Ltd and the Pension Fund for AXA Switzerland, which led to the transfer of actuarial provisions for pension benefits to the occupational benefits institution. In addition, a further foundation transitioned to the semi-autonomous model. Benefits on retirement, meanwhile, fell further as the number of pension recipients declined.

The decrease of CHF 3,0 billion in technical provisions during 2022 was more pronounced than in the prior year (CHF 2,6 billion). For the reasons mentioned above, the largest decreases concerned actuarial reserves for current retirement and survivors' pensions,

Income

	2022	2021
Retirement credits	4	7
Individual deposits due to start of employment, purchases, PHO or divorce	5	5
Retirement assets brought in connection with contract transfers	0	22
Deposits for retirement and survivors' pensions	16	23
Deposits for disability pensions and disabled person's child's pensions	58	56
Deposits for vested benefits policies	0	0
Savings premiums	83	113
Risk premiums	492	443
Cost premiums	163	148
Gross premiums written	738	704
Gross investment income	223	589
Direct investment income	331	405
Cash and cash equivalents	1	0
Bonds	126	150
Properties	83	106
Mortgages	51	69
Other investments	70	81
Result from disposals	148	135
Balance from write-ups and write-downs	-245	63
Currency result	-9	-9
Interest expense	-2	-5
Asset management fees	-63	-70
Net investment income	160	519
Other income	9	14
Reinsurance result	-5	3
Income	902	1,240

strengthening of actuarial reserves, and retirement assets.

A total of CHF 81 million was allocated to the surplus fund. This was lower than in the prior year, mainly due to lower investment income.

Acquisition and administrative expenses rose by CHF 6 million in 2022. Acquisition costs increased as the semi-autonomous solutions continued to prove highly successful, while administrative expenses were also higher.

The operating result for 2022 amounted to CHF 74 million before tax. The fall of CHF 36 million is mainly attributable to lower investment income.

Expenditure

	2022	2021
Benefits on retirement	711	834
Pension benefits	653	760
Lump sum benefits	59	74
Death and disability benefits	464	484
Pension benefits	362	400
Lump sum benefits	102	84
Individual lump-sum benefits (vested benefits, PHO, divorce, VBP)	64	124
Surrender values from contract terminations	2,238	1,957
Benefit processing expenses	32	30
Benefits	3,510	3,429
Retirement assets	-399	-1,912
Provision for future conversion rate losses	-2	0
Actuarial reserves for current retirement and survivors' pensions	-1,793	-521
Actuarial reserves for current disability pensions and disabled person's child's pensions	-15	6
Actuarial reserves for vested benefits policies	-108	-135
Actuarial reserves for other coverages	0	0
Strengthening of actuarial reserves for annuity capital and vested benefits policies	-595	-28
Provision for insurance cases which have occurred but have not yet been settled	-35	-1
Fluctuation and interest guarantee provisions	56	37
Cost-of-living provisions	1	0
Other technical provisions	-65	-74
Change in technical provisions	-2,954	-2,627
Allocation to surplus fund	81	138
Change in unearned premium reserves	0	0
Acquisition and administrative expenses	181	175
Other expenses	10	14
Operating result	74	110
Expenditure	902	1,240

Monetary amounts in CHF millions

Balance sheet: key figures

Explanations regarding the liabilities side

The reduction in total net assets from CHF 21 billion to CHF 18 billion is largely attributable to the factors outlined under "Income statement": the termination of the reinsurance agreement between AXA Life Ltd and the Pension Fund for AXA Switzerland, the transformation of a further foundation and subsequent transfer of retirement assets to the semi-autonomous foundation, and the steady decline in the number of pension recipients.

Explanations regarding the assets side

As was the case with transformation steps in previous years, investments were transferred to the occupational benefits institutions concerned to account for the changes on the liabilities side when the reinsurance agreement with the Pension Fund for AXA Switzerland was terminated and a further customer foundation was transformed. Investments with a book value equal to that of the retirement assets and actuarial reserves being transferred were selected and transferred. In this process, it was ensured that the ratio of market value to book value is identical in the portfolio remaining on the AXA Life balance sheet and the transferred portfolios.

Asset items

	2022		2021	
Cash and cash equivalents, time deposits	8	0.0%	158	0.8%
Bonds in Swiss francs	9,429	53.6%	10,490	50.8%
Bonds in foreign currencies	1,047	6.0%	1,411	6.8%
Properties	1,770	10.1%	2,102	10.2%
Mortgages	3,080	17.5%	3,790	18.4%
Equities and participating interests	207	1.2%	335	1.6%
Alternative investments	1,015	5.8%	1,175	5.7%
Investment fund units	184	1.0%	40	0.2%
Net credit balances from derivative financial instruments	0	0.0%	5	0.0%
Other investments	861	4.9%	1,140	5.5%
Total investments	17,601	100.0%	20,647	100.0%
Liabilities from derivative financial instruments	91		75	
Other assets	444		501	
Ceded reinsurance	40		49	
Total net assets	18,175		21,272	

Liability items

Retirement assets	91	0.5%	490	2.4%
of which mandatory benefits	67		82	
of which extra-mandatory benefits	24		408	
Provision for future pension conversion rate losses	13	0.1%	15	0.1%
of which mandatory benefits	5		6	
of which extra-mandatory benefits	8		9	
Actuarial reserves for current retirement and survivors' pensions	10,854	61.9%	12,648	61.7%
of which mandatory benefits	5,992		6,325	
of which extra-mandatory benefits	4,862		6,323	
Actuarial reserves for current disability pensions and disabled person's child's pensions	1,377	7.8%	1,391	6.8%
of which mandatory benefits	684		717	
of which extra-mandatory benefits	693		675	
Actuarial reserves for vested benefits policies	1,085	6.2%	1,193	5.8%
Strengthening of actuarial reserves	2,782	15.9%	3,378	16.5%
Provision for insurance cases which have occurred but have not yet been settled	311	1.8%	345	1.7%
Provisions for interest guarantees, claims fluctuations and value fluctuations	557	3.2%	501	2.4%
Other technical provisions	121	0.7%	186	0.9%
Cost-of-living provisions	354	2.0%	353	1.7%
Technical provisions	17,546	100.0%	20,500	100.0%
Surplus fund	171		226	
Unearned premium reserves	0	0.0%	0	0.0%
Credited surplus portions	0	0.0%	0	0.0%
Other liabilities	458		545	
Total net assets	18,175		21,272	

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, virtually risk-free Swiss government and mortgage bonds as well as corporate bonds. The "Other investments" item comprises mortgages, loans, cash and cash equivalents, and short-term investments.

The decrease in the book value of investments in 2022 was mainly due to the termination of the reinsurance agreement with the Pension Fund for AXA Switzerland, the transformation of a further foundation to semi-autonomy, and the further decline in the number of pension recipients. The valuation difference is largely attributable to fixed-interest investments and properties. The valuation reserves for investments fell year-on-year due to rising interest rates.

Investments

	2022		2021	
	Book value	Market value	Book value	Market value
Real property and buildings	1,770	2,352	2,102	2,919
Shares in real estate companies	0	0	175	401
Shares in associated companies	0	0	0	0
Participations	0	0	0	0
Equities and units in investment funds	391	407	201	214
Own equities	0	0	0	0
Fixed-interest securities	10,476	9,737	11,901	13,209
Hedge funds	188	238	208	239
Private equity	827	897	968	1,017
Net credit balances from derivative financial instruments	0	0	5	5
Other investments	3,949	3,714	5,088	5,088
Total investments	17,601	17,345	20,647	23,093
Valuation reserves at the end of the accounting year		-256		2,446
Change in valuation reserves compared to previous year		-2,702		-725

	Market value	Share	Market value	Share
Market value of investments	17,345	100.0 %	23,093	100.0 %
Direct investments	16,013	92.3 %	21,795	94.4 %
Single- and multi-level collective investments	899	5.2 %	1,062	4.6 %
Non-cost-transparent investments	433	2.5 %	237	1.0 %

Monetary amounts in CHF millions

Trend in investment income

Net investment income was down year-on-year at CHF 160 million.

Direct earnings from investments fell to CHF 331 million as a result of the decrease in total net assets explained under "Balance sheet". In addition to this, financial market trends led to lower income from alternative investments. The fall in other investment income, meanwhile, was due in particular to higher write-downs on fixed-interest securities and equities.

However, this was partially offset by lower asset management costs.

Trend of return on investments

	2022	2021
Direct earnings from investments	331	405
Other investment income	-108	184
Result from disposals	148	135
Balance from write-ups and write-downs	-245	63
Currency result	-9	-9
Interest expense	-2	-5
Investment income, gross	223	589
Asset management costs	-63	-70
Investment income, net	160	519
Asset management without real estate maintenance	-63	-70
Maintenance and servicing of real estate*	-25	-22
Total asset management costs	-88	-92

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

The investment income for 2022 corresponds to a return on book values of 1.17% (prior year: 2.68%). After deduction of asset management costs, a return of 0.84% (prior year: 2.36%) was achieved.

The return on market values was -12.26%, reflecting market value losses on fixed-interest securities, loans, and mortgages as a result of higher interest rates.

Asset management costs

Gross asset management costs fell by CHF 4 million. Costs for direct investments were lower, as were transaction costs as a result of the reduced transaction volume. The reported costs for single- and multi-level investments, on the other hand, were higher due to increased cost transparency.

Return and performance

	2022		2021	
	Gross	Net	Gross	Net
Total return on book values	1.17%	0.84%	2.68%	2.36%
Market value performance	-12.26%	-12.57%	-0.55%	-0.83%

Asset management fees

	2022	2021
Direct investments	-51	-52
Single- and multiple-level investments	-21	-14
TER costs	-73	-66
TTC costs	-8	-15
SC costs	-9	-11
Asset management costs (gross)	-89	-93
Capitalized costs	1	1
Maintenance and servicing costs for properties	25	22
Asset management costs (net)	-63	-70

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



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 90.7%, 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Administrative and customer advisory services related to occupational pensions and insurance

	2022		2021	
	Subject to MDR	Not subject to MDR	Subject to MDR	Not subject to MDR
Sum of income components	789	27	1,071	39
Saving process (income from investments)	160	0	519	0
Risk process (risk premiums)	465	27	404	39
Cost process (cost premiums)	163	0	148	1
Total expenditure	-509	-13	-811	-42
Saving process (mainly technical interest)	-42	0	-348	0
Risk process (mainly death and disability benefits)	-298	-12	-308	-42
Cost process (mainly administrative costs)	-168	-1	-154	0
Gross result, operating statement	280	14	260	-2
Change in technical provisions in the saving process	-54	0	-31	0
Longevity risk	0	0	6	0
Gaps in coverage on conversion into pensions	2	0	0	0
Interest guarantees	0	0	-10	0
Reversal of cost-of-living provisions in favor of strengthening measures	0	0	0	0
Fluctuations in value of investments	-56	0	-27	0
Change in technical provisions in the risk process	-79	-5	-2	24
Insurance cases reported but not yet settled	-79	-5	-2	24
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	-133	-5	-33	24
Cost of raising additional risk capital	0	0	0	0
Allocation to surplus fund	-73	-8	-124	-14
Result, operating statement	74	1	103	8
Dividend ratio	90.7%	97.0%	90.4%	80.6%
Recapitulation of the operating result				
Share of business subject to MDR	74		103	
Share of total income as %	9.3%		9.6%	
Share of business not subject to MDR		1		8
Share of total income as %		3.0%		19.4%
Operating result	74		110	
Share of total income as %	9.1%		10.0%	
Surplus fund	164	7	212	15

Monetary amounts in CHF millions

Income and expenditure

In occupational benefits insurance, the various elements of income and expenditure 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.

Change to technical provisions

After multiple reductions, the technical interest rate stood at 0.55 % in 2021. No further reduction was needed in 2022 thanks to higher interest rates on the financial markets.

The provision for insurance cases reported but not yet settled was increased by CHF 79 million, and the provision for fluctuations in the value of investments by CHF 56 million.

Division of income between insured persons and AXA

The operating result depends directly on the applicable revenue, which consists of investment income, 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 715 million went to insured persons in 2022 in the form of insurance benefits, strengthening reserves, and allocations to the surplus fund. This equates to a distribution ratio of 90.7 %. AXA's profit – the remaining 9.3 % – was CHF 74 million before tax in 2022.

How the minimum distribution ratio is calculated

	2022	2021
Saving process Income from investments	160	519
Risk process Premium income from death and disability insurance	465	404
Cost process Premium income for operations and service	163	148
Sum of income components	789	1,071

At least 90 % of the income components go to insured persons in the form of benefits.

	2022	2021
Use for the following benefits for insured persons:		
1. Interest on retirement assets of insured persons and conversion losses	-42	-348
2. Benefits in the event of disability and death	-298	-308
3. Administration, operations, and service	-168	-154
Total	-509	-811
Formation of reserves for future benefits for insured persons		
1. Longevity	0	6
2. Gap in coverage on conversion into pensions	2	0
3. Interest guarantees due to persistent low interest rate phase	0	-10
4. Reversal of cost-of-living provisions in favor of strengthening measures	0	0
5. Fluctuations in value of investments	-56	-27
6. Expected benefit cases due to disability	-79	-2
Total	-133	-33
Allocation to surplus fund to be used for insured persons	-73	-124
Total benefits allocated to insured persons	-715	-968

The profits of life insurers are limited by law and cannot exceed 10 % of the income components.

	2022	2021
Operating result for AXA Life Ltd. from business subject to MDR (gross before tax)	74	103

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.

The difference between risk premiums on the one hand and benefits and changes to provisions on the other was CHF 88 million in 2022. Revenues from risk premiums rose by CHF 61 million, while direct benefit payments fell slightly (by CHF 10 million). Changes to provisions for expected disability cases were up CHF 77 million year-on-year.

Risk process	2022	2021	2020	2019
Risk premiums	465	404	372	331
Risk benefits	-298	-308	-311	-214
Provisions for expected disability (IV) cases	-79	-2	23	32
Result of risk process	88	94	83	149

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 income is 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.

In 2022, AXA was able to allocate CHF 81 million to the surplus fund, with business subject to the MDR accounting for CHF 73 million of this. The total allocation was CHF 57 million below the prior-year figure, mainly as a result of the fall in investment income.

	2022	2021
As at end of previous year	226	214
Distribution to occupational benefits institutions (allocation of surpluses)	-137	-125
Surplus participation, current year allocation of surpluses	81	138
Withdrawal to cover the operating shortfall	0	0
Valuation adjustment	0	0
As at end of accounting year	171	226
of which tied assets	93	161
of which free assets	79	65

Monetary amounts in CHF millions

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.

	2022	2021
As at end of previous year	353	352
Cost-of-living premiums, gross	4	4
Cost expenses	-3	-3
Expenditure for COL increases in risk pensions	0	-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	354	353

Monetary amounts in CHF millions

Operating expense and asset management costs

The operating and management costs of CHF 209 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 administrative expenses.

Operating expense increased by CHF 7 million year-on-year to CHF 209 million as a result of higher administrative and acquisition costs as well as higher benefit processing expenses.

Asset management costs do not count toward operating expense but are instead included in the income statement directly as part of the net return on investments. They amounted to CHF 89 million in 2022, down 4% compared with the prior year. At CHF 25 million, real estate maintenance and servicing costs were slightly higher year-on-year.

Breakdown of operating expense	2022		2021	
Commission paid to sales force	44		43	
Commission paid to brokers	26		23	
Other acquisition costs	14		16	
Acquisition costs	84	40.5%	82	40.7%
Benefit processing expenses	32	15.2%	30	14.7%
Marketing and advertising expenses	2	1.2%	2	0.8%
Other expenses for general administration	94	45.0%	91	45.2%
Reinsurers' share in operating expense	-4	-1.8%	-3	-1.3%
Total net operating expense	209	100.0%	202	100.0%
Costs of asset management without real estate maintenance	63		70	
Capitalized costs	1		1	
Costs of maintenance and servicing of real estate*	25		22	
Costs of asset management with real estate maintenance	89		93	

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).

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