

# Operating statement 2014

## Occupational pensions

## Group Life Switzerland

### Translation

The group Life operating statement is available in German, French, Italian and English.

The German version remains authoritative.



Dear Reader,

The group life business of Baloise Life Ltd had a very successful year in 2014.

The periodic premiums increased significantly compared to 2013, up 6.1%. The portfolio of insured persons also demonstrated an exceedingly positive trend. At the same time, Baloise was successful in reducing its operating expenses within its occupational pension provision. As a result, the average cost per active insured person was less than CHF 500 in 2014.

A significant contribution to the pleasingly large investment income in 2014 was made by the disposal of a major shareholding. This enabled a good net return of 3.22% to be generated compared to the previous year. The market environment remains very challenging, especially due to the low interest rates on fixed-income investments. Against this background, equity investments were further expanded in 2014.

The security of its pension provision is Baloise's central obligation to its customers and insured persons. To this end, the technical reserves were increased by a further CHF 160 million in 2014. These increases serve in particular to secure current and future pensions in a difficult capital markets environment.

The active insured persons also benefited from the good returns. The surplus fund was endowed with CHF 70 million and amounted to just under CHF 131 million at the end of 2014. As part of the participation in surplus, on 1 January 2015 an attractive interest rate of 1.95% was again paid on the pension assets of the insured persons for 2014.

The distribution ratio for policyholders in 2014 was 93.1% in the business segment subject to the minimum quota, and was therefore well above the statutory minimum ratio of 90%.

Baloise has continued to develop its pension product range. From 2015, small and medium-sized customers can join the semi-autonomous Perspectiva Collective Foundation. With its innovative investment strategy, this product line is an attractive alternative for our customers who currently have comprehensive insurance.

We wish you a successful year.

A handwritten signature in blue ink, appearing to read 'C. Markstein'. The signature is fluid and cursive.

**Clemens Markstein**  
Head of Product Management Corporate Clients  
Member of the Executive Committee

## Operating statement: occupational pension provision 2014

The main contributors to income in the occupational pension business are premiums and investment income. Premiums include periodic annual premiums, single premiums, any portable benefits transferred in on commencement of employment, purchase contributions made by insured persons to cover gaps in their contributory years and policy reserves for

active insured persons and pension recipients in the case of new contracts.

The insurance expenses include, in particular, retirement benefits, survivors' benefits and disability benefits, portable benefits transferred out due to termination of employment and surrender values as a result of contract terminations.

### Income

All figures are stated in CHF 000s

Premium income (gross)	2014	2013
Savings premiums (incl. single premiums), of which:	2 221 313	2 047 376
→ Retirement assets transferred in (new employees and new affiliations)	1 323 443	1 200 665
→ Contributions to the accumulation of retirement assets (savings premiums)	816 607	768 651
→ Deposits for acquired retirement and survivors' pensions	22 395	21 478
→ Deposits for acquired disability pensions	16 286	14 072
→ Deposits for portable benefit policies	42 582	42 510
Risk premiums	229 086	214 919
Cost premiums	69 558	67 820
Total premiums	2 519 957	2 330 115

### Investment income

Net direct investment income	379 532	389 267
Gains or losses on disposals	150 087	51 348
Gains or losses on currency exchanges	-13 143	-9 449
Balance of write-downs and write-ups	5 737	-10 253
Interest expenses	-5 923	-4 501
Gains or losses from reinsurance	2 241	-7 809
Other income (aggregated)	4 069	3 535
Total income	3 042 557	2 742 253

### Expenses

All figures are stated in CHF 000s

Insurance benefits	2014	2013
Benefit payments for retirement, death and disability	523 051	475 487
Portable benefits	1 013 609	948 123
Surrender values	235 100	162 767
Costs of processing benefit claims	13 465	15 444
Total benefits	1 785 225	1 601 821

### Change in technical reserves

Retirement assets	668 101	630 427
Policy reserves for current retirement and survivors' pensions	169 982	140 034
Policy reserves for current disability pensions	-21 082	-16 842
Policy reserves for portable benefits policies	-14 624	-12 832
Provisions for incurred but not reported/settled claims	42 400	36 390
Other technical provisions (incl. strengthening of reserves)	190 559	140 712
Sub-total	1 035 336	917 889

Acquisition and administrative costs (gross)	75 801	76 200
Other expenses (aggregated)	5 483	4 815
Surplus dividends allocated to the surplus fund	70 000	93 000
<b>Operating profit</b>	<b>70 712</b>	<b>48 528</b>
Total expenses	3 042 557	2 742 253

The operating profit for the 2014 financial year before allocation to the surplus fund amounted to CHF 140.7 million. Of this, CHF 70.0 million was allocated to the surplus fund.

## Key figures on the investment income

The investment income (gross) includes, in particular, current income, realised gains and losses and necessary impairment losses (write-downs). The costs for asset management are deducted in the net figures.

All figures are stated in CHF 000s

<b>Investments</b>	<b>2014</b>	<b>2013</b>
Direct investment income	437 157	422 652
Gains or losses on disposals	150 087	51 348
Gains or losses on currency exchanges	-13 143	-9 449
Balance of write-downs and write-ups	5 737	-10 253
Interest expenses	-5 923	-4 501
<b>Gross investment income</b>	<b>573 915</b>	<b>449 797</b>
Asset management costs <sup>1)</sup>	-57 625	-33 385
<b>Net investment income</b>	<b>516 290</b>	<b>416 412</b>

1) Higher asset management costs as a result of the change in presentation due to the new disclosure requirements (see: "Information on the investments 2014")

<b>Investment portfolio</b>	<b>2014</b>		<b>2013</b>	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments at the start of the accounting year	15 477 281	16 545 399	14 375 333	15 858 021
Investments at the end of the accounting year	16 679 056	18 665 562	15 477 281	16 545 399

The valuation reserves correspond to the difference between the carrying amounts and fair values of the investments:

<b>Valuation reserves</b>	<b>2014</b>	<b>2013</b>
Valuation reserves at the start of the accounting year	1 068 118	1 482 688
Valuation reserves at the end of the accounting year	1 986 506	1 068 118
Change in valuation reserves	918 388	-414 570

<b>Asset management</b>	<b>2014</b>	<b>2013</b>
Asset management costs <sup>1)</sup>	57 625	33 385
As a percentage of the investments at fair value	0,33%	0,21%
Proportion arising from collective investments	4,64%	
Proportion arising from non-cost-transparent investments	0	

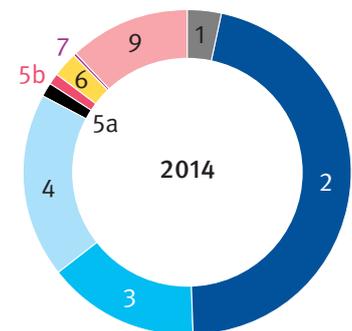
1) Higher asset management costs as a result of the change in presentation due to the new disclosure requirements (see: "Information on the investments 2014")

The rate of return on book value compares the net investment income with the carrying amount of the investments. In order to measure performance, additional changes in the fair value of the investment assets that are not included in the operating statement are taken into account. The valuation reserves correspond to the difference between the carrying amounts and fair values of the investments.

<b>Rate of return and performance</b>	<b>2014</b>		<b>2013</b>	
	Gross	Net	Gross	Net
Rate of return on book value	3,57%	3,21%	3,01%	2,79%
Performance as at fair value	8,48%	8,15%	0,22%	0,01%

## Investment portfolio of occupational pension assets

Investments	2014		2013	
	(CHF 000s)	(%)	(CHF 000s)	(%)
1. Cash & cash equivalents and fixed-term deposits	390 617	2,34	533 506	3,45
2. Fixed-income securities in Swiss francs	7 544 022	45,15	7 109 055	45,93
3. Fixed-income securities in foreign currencies	2 672 836	16,00	2 277 958	14,72
4. Mortgages and other nominal value receivables	2 861 129	17,12	2 812 775	18,17
5a. Swiss and foreign equities	444 628	2,66	226 833	1,46
5b. Units in investment funds	333 122	1,99	163 901	1,06
6. Private equity and hedge funds	470 966	2,82	395 641	2,56
7. Assets held as derivative financial instruments	10 512	0,06	24 061	0,15
8. Long-term equity investments and investments in associated companies	0	0	0	0
9. Real estate	1 981 327	11,86	1 834 119	11,85
10. Other investments	0	0	101 208	0,65
<b>Total</b>	<b>16 709 159</b>	<b>100,00</b>	<b>15 479 057</b>	<b>100,00</b>



### Information on the investments (2014)

All asset classes achieved positive returns in 2014. The stock markets are benefiting from the economic recovery in the USA and an expansive monetary policy, although concerns about the EU economy caused the markets to fall briefly in October. The combination of expansionary monetary policy and lower inflation expectations led to a fall in interest rates on bond investments and a tightening of credit spreads on corporate bonds. In this environment, a good net return on book value of 3.21% (previous year: 2.79%) was achieved.

The direct investment income was above the previous year's level, not least because of the larger investment portfolio. In the current interest rate environment, the reinvestment of fixed income securities is a challenge. The average interest rate in the bond portfolio is decreasing steadily because the new investments pay lower coupons than repaid bonds. A supporting effect on direct investment income is provided by the further expansion of equity investments and senior secured corporate loans (senior secured loans are included under investment funds). Investment properties and mortgages were characterised in 2014 by value and earnings stability. In this context, the portfolio was enhanced by additional properties in attractive locations.

Some of the investment management costs were offset directly by the investment income in previous years. The Occupational Pension Funds Supervisory Committee (OAK BV) introduced new disclosure requirements in 2014 that require the full reporting of all investment costs, which has given rise to an increase in the reported costs. Ultimately, the decisive factor in assessing the quality of investment management is the net income generated by the investments.

The income realised from disposals was significantly higher compared to the previous year. The disposal of a major shareholding, the profits on our private equity pot and profits accrued during the course of ordinary bond portfolio management were the driving forces behind this development. In addition, the unreported investment costs of collective investments were charged directly to this line item in previous years.

We have retained our currency hedging for euro-denominated bonds and alternative financial investments in order to protect the investments in the event of unforeseen currency developments. The 2014 drop in interest rates also led to a significant increase in the valuation of fixed-income securities, in which the largest portion of the investments are made. This enabled us to report an extremely high performance of 8.15% for 2014.

## Surplus fund

The surplus fund is a technical balance sheet item that shows the surplus dividends to which policyholders are entitled. If the operating statement result permits, cash can be allo-

cated to the surplus fund. The withdrawals for the allocation of dividends to policyholders are taken from this in the following year.

All figures are stated in CHF 000s

Surplus fund	2014	2013
Balance at end of the previous year	128 592	106 540
Allocation from the operating statement	70 000	93 000
Allocated to pension fund	-67 633	-70 948
<b>Balance at end of the accounting year</b>	<b>130 959</b>	<b>128 592</b>

## Inflation fund

The inflation fund is a technical reserve item. It is used to finance the statutory inflation adjustment that must be applied to current disability and survivors' pensions to take account of price rises.

On 1 January 2014, no initial adjustment was made to pensions with three-year terms (i.e. starting in 2010) because the relevant consumer price index was the same in September 2013 as it was in September 2010.

Survivors' and disability pensions which started before 2010 will be adjusted with the next AHV pension increase, i.e. on 1 January 2015 at the earliest.

The withdrawals from the inflation fund reported for 2014 relate to the funding of life-long inflation adjustment entitlements of people with an incapacity to work who receive a retirement pension as of 2014.

All figures are stated in CHF 000s

Inflation fund	2014	2013
Balance at end of the previous year	240 347	233 565
Inflation premium	4 108	4 058
Tariff interest / sub-total	1 202	1 168
Cost for statutory adjustment for inflation <sup>1)</sup>	-696	1 556
Withdrawals benefiting the operating statement	0	-696
<b>Balance at end of the accounting year</b>	<b>244 961</b>	<b>240 347</b>

1) In 2013, a one-time addition of CHF 1.6 million was made to the inflation fund as a result of a technical adjustment from previous years.

## Technical reserves

Insurance companies are required to establish adequate technical reserves to cover expected liabilities. These include, in particular, the retirement assets for future retirement benefits.

The reserves for current retirement, survivors' and disability pensions are reviewed regularly. Due to the high statutory pension conversion rates in occupational pension plans and the per-

sistently low interest rates, such reserves need to be strengthened on an ongoing basis. Special reserves also have to be created for incurred but not yet settled disability claims.

The "Credited surplus dividends" item includes the surpluses already allocated for portable benefits policies and surplus deposit accounts of corporate collectives.

All figures are stated in CHF 000s

Technical reserves (gross)	2014	2013
Retirement assets	10 494 460	9 826 359
→ Compulsory scheme	5 861 313	5 517 400
→ Non-compulsory scheme	4 633 147	4 308 959
Additional reserve for future pension conversions	322 700	281 700
→ Compulsory scheme	253 139	230 062
→ Non-compulsory scheme	69 561	51 638
Policy reserves for current retirement and survivors' pensions	2 065 097	1 895 114
→ Compulsory scheme	1 153 388	1 064 087
→ Non-compulsory scheme	911 709	831 027
Policy reserves for current disability pensions	746 694	767 776
→ Compulsory scheme	417 040	431 099
→ Non-compulsory scheme	329 654	336 677
Increased policy reserves for current pensions	398 200	350 500
→ Compulsory scheme	312 364	286 250
→ Non-compulsory scheme	85 836	64 250
Policy reserves for portable benefits policies	368 283	382 907
Provisions for incurred but not settled/reported claims	505 700	463 300
Inflation fund	244 960	240 346
Credited surplus dividends	30 542	34 132
Other technical reserves	633 872	527 627
<b>Total</b>	<b>15 810 508</b>	<b>14 769 761</b>

## Further key figures

Parameter used	2014		2013	
	Compulsory scheme	Non-compulsory scheme	Compulsory scheme	Non-compulsory scheme
Pension conversion rate for men at age 65	6,800%	5,835%	6,850%	5,835%
Pension conversion rate for women at age 64	6,800%	5,574%	6,800%	5,574%
Guaranteed interest rate on retirement assets	1,75%	1,50%	1,50%	1,25%
Additional interest on surplus (as at 1 January of the following year)	+0,00%	+0,75%	+0,25%	+1,00%
Average overall interest rate <sup>1)</sup> for retirement assets		1,95%		1,95%

1) Average ratio of compulsory to non-compulsory scheme retirement assets 60:40.

### Total number of insured persons at the end of the year

Active insured persons	153 034	140 928
Pension recipients	19 823	19 621
Portable benefit policies	25 074	25 942
<b>Total number of insured persons</b>	<b>197 931</b>	<b>186 491</b>

### Breakdown of cost premiums

All figures are stated in CHF 000s

Cost premiums of active insured persons (absolute)	66 838	64 978
→ Per insured person (CHF)	437	461
Cost premiums for portable benefits policies (absolute)	1 261	1 315
→ Per insured person (CHF)	50	51
Other cost premiums	1 459	1 527
<b>Total cost premiums</b>	<b>69 558</b>	<b>67 820</b>

### Operating expenses per cost centre

Acquisition costs	13 955	13 828
→ Of which: Commission to brokers/agents	10 982	11 722
→ Commission to own field sales staff	2 933	2 052
Costs of processing benefit claims	13 465	15 444
Costs for marketing and advertising	3 486	3 612
Other expenses for general administration	58 360	58 760
Reinsurers' share of the operating income <sup>1)</sup>	-3 282	-956
<b>Total</b>	<b>85 984</b>	<b>90 688</b>

1) In 2014, the participation in surplus in the reinsurance ratio was very high due to a very good claims year in 2013. This reduced the operating expenses accordingly. Thus overall, it was possible to achieve a positive reinsurance result compared to the previous year.

Operating expenses were reduced significantly in 2014. The average administrative costs per active insured person fell by approximately 10%, to less than CHF 500 per policy, in 2014 due to lower costs and an larger portfolio of insured persons.

### Operating expenses per cost unit

Administrative costs for active insured persons (absolute)	74 684	77 432
→ Per insured person (CHF)	488	549
Administrative costs for pension recipients (absolute)	8 900	10 792
→ Per insured person (CHF)	449	550
Administrative costs for portable benefits policies (absolute)	2 400	2 464
→ Per insured person (CHF)	96	95
Administrative costs for other cost units	0	0
<b>Total</b>	<b>85 984</b>	<b>90 688</b>

## Proof of compliance with the minimum quota

In order to demonstrate compliance with the minimum quota, the breakdown of the operating profit into individual business processes is shown below.

At least 90% of the income from the three business processes (savings, risk and cost processes) must benefit the policyholders (minimum quota). This is done in the form of insurance benefits, strengthening of provisions and allocations to the surplus fund.

Insurance contracts for which separate revenue and expenditure accounts have been agreed are excluded from the minimum quota. Typically, this relates to insurance solutions with semi-autonomous pension funds, contracts that form part of international insurance programmes and special contracts, such as insurance for industry associations.

### Business subject to the minimum quote

All figures are stated in CHF 000s

Income	2014	2013
Savings process	428 819	344 616
Risk process	168 126	161 247
Cost process	62 235	60 880
<b>Total income</b>	<b>659 180</b>	<b>566 743</b>
Base rate for the distribution ratio	100%	100%
<b>Expenses</b>		
Savings process	266 436	229 988
Risk process	85 289	73 321
Cost process	60 977	62 122
<b>Total expenses</b>	<b>412 702</b>	<b>365 431</b>
<b>Gross operating profit (subject to the minimum quota)</b>		
Savings process	162 383	114 628
Risk process	82 837	87 926
Cost process	1 258	-1 242
<b>Gross operating profit</b>	<b>246 478</b>	<b>201 312</b>
<b>Change in technical reserves</b>		
Longevity risk	41 700	41 100
Shortfall arising from pension conversions	103 650	62 200
Reported but not settled claims	0	0
Incurred but not reported claims	3 800	3 000
Fluctuations in investments	0	0
Interest rate guarantees	32 000	20 000
<b>Total change in reserves</b>	<b>181 150</b>	<b>126 300</b>
<b>Allocation to the surplus fund</b>	<b>20 000</b>	<b>43 000</b>
<b>Benefit payments to insured persons</b>	<b>613 852</b>	<b>534 731</b>
<b>Distribution ratio</b>	<b>93,1%</b>	<b>94,4%</b>
<b>Operating profit</b>	<b>45 327</b>	<b>32 012</b>
(Business subject to minimum quota)		
Percentage increase in operating profit	6,9%	5,6%

For 2014, policyholders were allocated 93.1% of the revenues resulting from business subject to the minimum quota.

## Business not subject to the minimum quota

All figures are stated in CHF 000s

Income	2014	2013
Savings process	87 472	71 795
Risk process	60 960	53 672
Cost process	7 323	6 940
<b>Total income</b>	<b>155 755</b>	<b>132 407</b>
Base rate for the distribution ratio	100%	100%
<b>Expenses</b>		
Savings process	47 926	42 626
Risk process	38 112	33 675
Cost process	11 882	12 892
<b>Total expenses</b>	<b>97 920</b>	<b>89 193</b>
<b>Gross balance of the operating statement (not subject to the minimum quota)</b>		
Savings process	39 546	29 169
Risk process	22 848	19 997
Cost process	-4 559	-5 952
<b>Gross operating profit</b>	<b>57 835</b>	<b>43 214</b>
<b>Change in technical reserves</b>		
Longevity risk	6 000	-9 600
Shortfall arising from pension conversions	-62 650	-40 000
Reported but not settled claims	0	0
Incurred but not reported claims	2 100	1 300
Claims fluctuations	0	5 000
Fluctuations in investments	7 000	0
Interest rate guarantees	30 000	20 000
<b>Total change in reserves</b>	<b>-17 550</b>	<b>-23 300</b>
<b>Allocation to the surplus fund</b>	<b>50 000</b>	<b>50 000</b>
<b>Benefit payments to insured persons</b>	<b>130 370</b>	<b>115 893</b>
<b>Distribution ratio</b>	<b>83,7%</b>	<b>87,5%</b>
<b>Operating profit</b>	<b>25 385</b>	<b>16 514</b>
(Business not subject to the minimum quota)		
Percentage increase in operating profit	16,3%	12,5%

For 2014, policyholders were allocated 83.7% of the revenues resulting from business not subject to the minimum quota.

## Explanations of the business processes

**The savings process** represents the accumulation of retirement assets, the conversion of retirement assets into retirement pensions and the settlement of the related retirement pensions. Here, the (net) investment income is offset against the expenses relating to the technical interest accrual (guaranteed interest rates) and the costs of settling current retirement and pensioner's children's pensions. The costs for asset management are shown with the investments.

**The risk process** represents the payment and settlement of death benefits and disability benefits (in the form of lump-sum benefits and pension payments) and of anticipated entitlements associated with current retirement pensions giving rise to survivors' pensions. Here, the risk premiums paid are offset against the costs for insurance benefits, in particular for the formation of the policy reserves for new disability and survivors' pensions. The costs for the processing of benefits are mainly assigned to the risk process.

**The cost process** represents the costs for administration and sales relating to the provision of insurance in the form of occupational pensions. Here, the collected cost premiums are offset against the administrative costs incurred.

## Notes on the operating statement

The "permeability" that exists between processes permits the necessary balance between the differently located business process risks. This concerns, in particular, the investment risks in the savings process and the actuarial risks in the risk process. The formation of adequate reserves and the possibility of an overall consideration of the income and expenses in the operating statement are mandatory prerequisites for being able to grant extensive guarantees under the full insurance model and for ensuring the stability of the pension provision. This benefits small and medium-sized enterprises in particular.

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