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Switzerland: The Income Protection Market

By Carlos Arocha

The Swiss spend heavily on insurance. With a total premium (i.e., life and non-life) per capita in 2008 of USD 6,380, Switzerland's insurance density ranks number three in the world (USD 3,552 in life business per capita, or world rank four).[1] Life assurance penetration in 2008 was 5.5 percent of GDP. Some life assurance products are compulsory, e.g., contributions to the state pension scheme, which are deducted at source from salaries, and health insurance which every resident must secure privately. An average Swiss family spends about one-fifth of household budget on insurance products, placing the Swiss among the world leaders on private insurance expenditure.

Despite the embedded insurance culture, Swiss carriers earn about one-half of their revenue abroad. Including reinsurance, Switzerland is one of Europe's leading insurance exporters.

Company	In Switzerland	Abroad	Total
Zurich	4.5	59.0	63.5
Swiss Life	8.2	18.5	26.7
Swiss Re	0.7	25.5	26.2
AXA Winterthur	10.3	10.3	20.6
Basel	3.9	7.0	10.9
Helvetia	3.1	5.7	8.8
Allianz Suisse	3.9	3.9	7.8
Die Mobiliar	2.8	2.8	5.6
SCOR Switzerland	0.1	2.2	2.3
Generali Switzerland	2.1	2.1	4.2
National	1.2	1.7	3.9
Vaudoise	0.9	1.8	2.7

Premium volume of large insurance/reinsurance groups in 2008 [2] (bn. Swiss Francs[3]).

The Swiss life assurance market consists primarily of savings and pension products. Individuals and families can be protected against economic insecurity through the purchase of individual life and health insurance. Savings can be accumulated to meet the financial impact of economic insecurity. Individual retirement account benefits are often available. The worker and family are also protected against economic insecurity through various group insurance programs of private companies. Employers provide private pension plans. Group life, health and disability benefits may also be available.

Under Switzerland's Federal Disability Insurance Scheme (IV–*Invalidenversicherung*), all workers are compulsorily covered with a state-provided disability monthly pension up to 70 percent of salary. The Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG–*Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge*) provides for a mandatory occupational scheme that complements state benefits. In addition, individuals may opt for private contributions to a "third-pillar" tax-deferred account, up to a maximum annual amount.

FOOTNOTES

1 Sigma 03/2009: World insurance in 2008, Swiss Reinsurance Company
2 Facts and Figures 2010: Swiss Insurance Association
3 All USD Figures herewith are based on the exchange rate at the end of July 2010, i.e., CHF 1 = USD 0.96

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Insurance products are designed within the above framework in mind. Most products offered today will feature the following:

- flexible, individual solutions to meet specific needs;
- financial security and maintenance of living standards in the event of disability, as complement to state- and employer-provided benefits;
- waiver-of-premium on disability;
- tax-savings on "third-pillar" restricted plans;
- non-smoker premium discounts; and
- benefits paid as pensions of lump sums.

In pricing their products, insurers consider non-smoker experience and profit-sharing schemes. Few companies offer dread disease products as an acceleration-type benefit, and stand-alone covers are not commonly found.

A typical disability product is structured shown in the table below.

Premium mode:	Monthly, quarterly, semi-annual or annual
Minimum insurable pension:	CHF 6,000 (approx. USD 5,735)
Entry age:	18
Maximum final age:	65
Minimum policy term:	3 years
Waiting periods:	2–24 months
Disability pension payments:	Quarterly, with first payment after expiration of waiting period
Policy loans:	Usually not allowed
Surrender value:	Usually none
Taxation of disability pensions:	Fully taxed
Taxation of premiums:	Fully tax-deductible up to a maximum limit

Future product development activities will be impacted by an overhauled solvency requirement system. Through a risk-based solvency standard (i.e., Swiss Solvency Test, or SST), insurers are answering the question of how much capital at the beginning of the year is required to cover liabilities at the end of the year with a 99 percent confidence level. The SST, a market-consistent valuation of assets and liabilities, is Switzerland's answer to Solvency II. Already adopted by insurers, capitalization under SST will be mandatory in 2011.

In 2008, life insurance premiums in Switzerland grew by 2.3 percent to CHF 30 billion (approx. USD 28.7 billion). In contrast, global life assurance premiums fell by 3.5 percent, a result triggered by a 5.3 percent decline in premiums in the industrialized world.

The financial crisis severely impacted new sales of unit-linked products, particularly those sold on a single premium basis. Countries like Britain, Ireland and France experienced a marked decline. However, sales of fixed annuities and savings-oriented life policies in Switzerland offset declines in unit-linked business. The income protection market remains competitive. The sector demonstrated its resilience. □