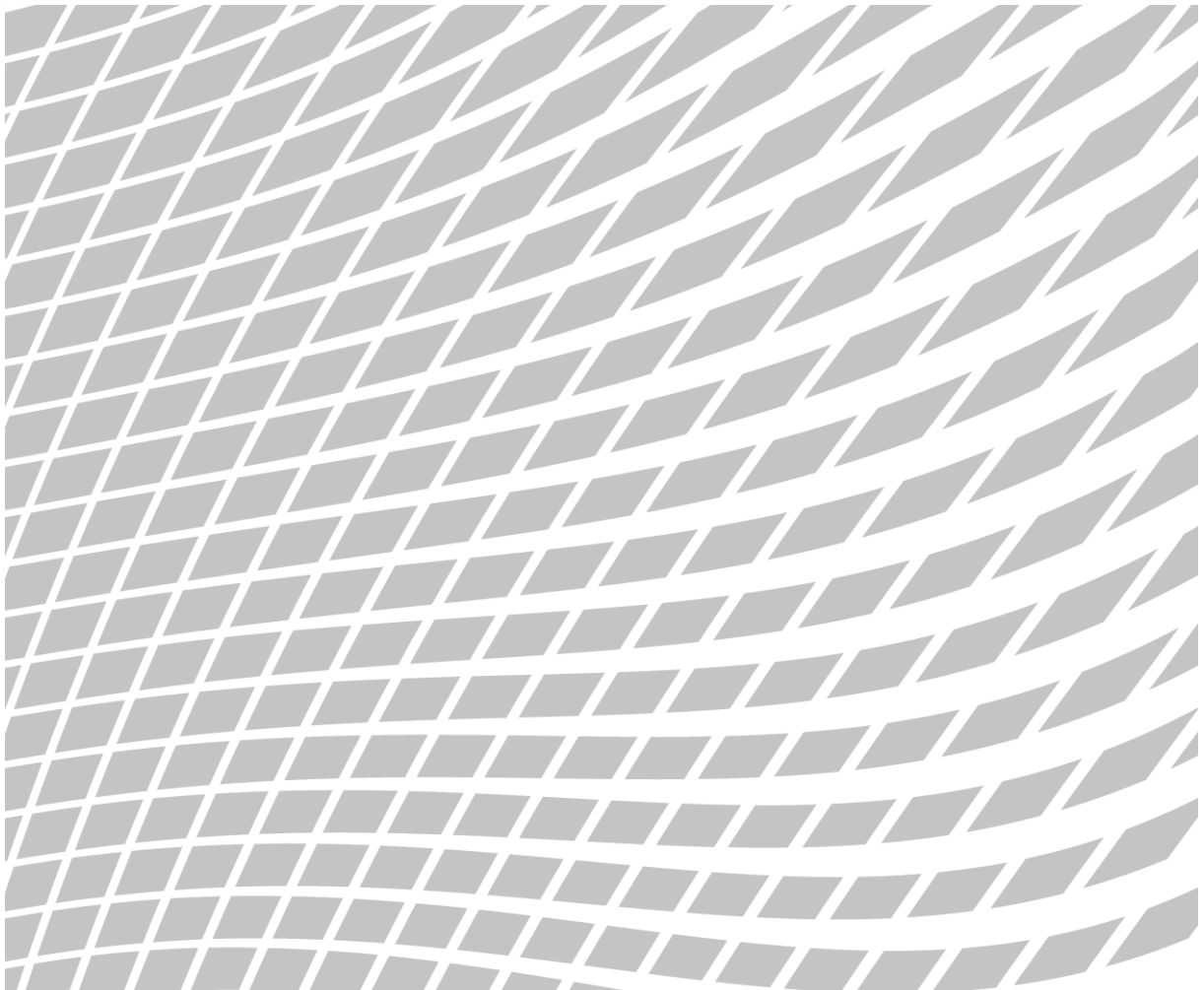


12 September 2011

2010 financial reporting on occupational pension schemes

Key points



The function and importance of private life insurers in occupational pension schemes

Occupational pensions are provided by pension funds, i.e. legally independent entities coming under the Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Schemes (BVG). Private life insurers which provide reinsurance cover by taking on risk and capital management from pension funds in whole or in part come under the Swiss Federal Insurance Supervision Act (ISA). They manage almost a quarter of retirement savings, insure nearly half of active policy holders and serve almost a quarter of pensioners. Guaranteed insurance liabilities are fully backed by tied assets held separately. These tied assets are subject to strict investment regulations concerning asset quality, risk diversification, admissible asset classes, risk management and administration.

2010 was a normal year

The financial reporting for 2010 represents the sixth time that private insurers have given an account of their occupational pension activities. After the endurance test in 2008, last year saw for the second time running a return to normal. In other words, life insurers were able to improve their capital adequacy ratio so as to be prepared for difficult years.

Whereas in 2008 the main feature of the **savings process** was the crisis in financial markets, in 2010 life insurers enjoyed a good year for investment. Following the large write-downs which had to be made in 2008, investment returns climbed back to the levels seen in 2009. The valuation reserves, which had fallen into negative territory in 2008, continued the recovery that had started in 2009 and solvency improved. The high share of nominal-value fixed income securities issued by government and private-sector borrowers pushed yields down and also opened up new currency and credit risks.

The results of the **risk process** continued to be positive, and policy holders partly benefited from both participation in surpluses and premium reductions. Insurance tariffs are controlled to protect policy holders from being charged abusive and excessive premiums by contract parties with a strong position in the market.

Negative results from the **cost process** indicate that there is still scope to improve administrative efficiency. The per capita administration costs reported went down on average by 6.1% and vary significantly depending on the insurer's business model. Life insurers offer different services, ranging from low-cost, standardised mass market products through to individually customised, and hence, expensive insurance solutions.

The mathematical provisions for **current pensions** continued to grow sharply in 2010. Insurers apply the statutory conversion rates for the mandatory occupational pension schemes and actuarially determined conversion rates for supplementary insurance. In view of increased life expectancy and lower yields, FINMA is making insurers strengthen their positions. By their very nature, life insurance engagements are long-term. They therefore have to be valued in such a way as to take account of the uncertainty of assumptions and methods by building in safety margins to ensure that liabilities can be honoured at all times during the term of contract. It is FINMA's duty to control that the valuation of liabilities is audited every year.

Outlook for 2011

The data available covering the 2005-2010 period are not sufficient to allow reliable forecasts to be made of the ability of the group occupational pension schemes run by private life insurers to withstand periods of crisis, particularly since the risk-based Swiss Solvency Test will only be binding on insurers from 2011. Moreover, private life insurers in group occupational pension schemes have also to cope with major challenges in 2011: the 2011 crisis in the euro has not yet passed and, in addition, the interest rate has fallen sharply. Since three further life insurers have discontinued this business, full insurance and reinsurance are now in the hands of eight life insurers. Their different business strategies and the intense competition between them and other providers have, however, a stabilising effect on occupational pension schemes and promote innovation.

Disclosure makes comparisons possible

The years of effort by the supervisory authority to achieve greater transparency through disclosure are having a positive effect on the behaviour of insurers. Key data such as on costs, distribution policy and investments reveal market participants' strengths and weaknesses and make it possible to draw comparisons with competitors. This can only benefit policy holders.