

Insurers and the full-insurance model

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Swiss life insurers have offered occupational pensions since long before the BVG. Under the full-insurance model (*Vollversicherung*), an employer joins a collective foundation sponsored by an insurer, which reinsures all risks with the insurer: the investment risk, the longevity risk and the risks of death and disability. The insured persons and the employer receive a guarantee that the foundation will never be underfunded and that no restructuring contributions will ever be demanded. Small and medium-sized enterprises in particular valued this security, because it relieved them of the administrative and financial burden of managing a pension fund.¹

For decades, full insurance was a significant business line for the leading Swiss life insurers, among them Swiss Life, AXA Winterthur, Baloise, Helvetia, Allianz Suisse and PAX. It brought them large volumes of assets under management and contributed a substantial part of their premium income. Basler Leben, the life insurance arm of the Baloise group whose history Part D traced, was among the important providers. The business was attractive as long as interest rates allowed insurers to earn more on the capital than they had to guarantee, while the costs of the guarantees remained moderate.²

The long period of low interest rates after 2008 changed the economics of the model. A life insurer that guarantees the minimum interest rate and the conversion rate on the compulsory part must hold the reserves and the capital required by the Swiss Solvency Test. As interest rates fell, the market-consistent valuation of these long-term guarantees raised the capital requirements considerably. Several insurers reduced their exposure, closed their offers to new clients or set stricter conditions for affiliation.³

In April 2018, AXA Winterthur, then the largest provider of full insurance, announced that it would withdraw from the model. From 2019 its collective foundations switched to a semi-autonomous structure in which the foundations bear the investment risk themselves, while AXA continues

to insure the risks of death and disability. The change affected tens of thousands of companies and several hundred thousand insured persons. Most of them remained with the new AXA foundations, although some moved to other providers.⁴ The decision was a turning point for the Swiss market, because it showed that a large insurer considered the guarantees in occupational provision too expensive to maintain under the prevailing regulatory and interest-rate conditions.

After AXA's exit, Swiss Life became the dominant provider of full insurance. Baloise and Helvetia continued to offer the model, as did smaller providers such as PAX in Basel. The merger of Baloise and Helvetia, discussed in chapter I of this Part, raises the question of how the combined group will position itself in this business. Status to be verified.⁵ For employers in the region, the reduced number of providers has led to higher prices and stricter underwriting, although the model remains attractive to small enterprises that value the absence of any restructuring risk.

1 Notes

1. On the full-insurance model in occupational pensions, under which collective foundations reinsure all risks with a life insurer and guarantee full coverage at all times, see the FINMA reports on the disclosure of operating accounts in occupational provision and the literature on Swiss occupational pensions. To be verified. ↩
2. On the importance of occupational provision in the business of Swiss life insurers, see the FINMA publications on the disclosure of operating accounts in occupational provision and the annual reports of the insurers. Market shares to be verified. ↩
3. On the effect of low interest rates on the solvency of life insurers offering full insurance in occupational provision and the resulting capital requirements under the SST, see the FINMA risk monitors and the annual reports of the insurers. To be verified. ↩
4. On the announcement by AXA Winterthur in April 2018 of its exit from the full-insurance model with effect from 1 January 2019 and the transfer of its collective foundations to a semi-autonomous model, see the AXA press releases and the press coverage of the time. Figures to be verified. ↩

5. On the providers of full insurance in occupational pensions after 2019, including Swiss Life, Baloise, Helvetia and PAX, and on the positioning of the merged Helvetia Baloise group, see the annual reports of the insurers and Part I, chapter I, of this book. Status to be verified. ↩

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