

Insurers as investors

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Insurance companies are among the largest investors in any financial centre, because they hold large reserves to cover their future obligations to policyholders. Life insurers, in particular, accumulate reserves over decades, since they collect premiums long before they pay benefits. These reserves must be invested safely and profitably, in assets whose maturity and currency match the obligations of the insurer.

The Basel insurers invested their reserves in Swiss government and cantonal bonds, in mortgages on Swiss real estate, in the shares and bonds of Swiss companies, among them the chemical companies of Basel, and in foreign securities. They were significant lenders to the Swiss mortgage market and owned large portfolios of real estate in Basel and other Swiss cities. Their investment policy was conservative, constrained by supervisory rules that prescribed the types of assets in which the reserves could be invested and the limits for each type.¹

The investment of insurance reserves connects the insurance industry with the rest of the financial centre. The insurers are clients of the banks and asset managers, which manage part of their portfolios, and of the brokers, through which they buy and sell securities. They are shareholders of listed companies and influence their governance. And they are among the largest buyers of the bonds that the Confederation, the cantons and the companies issue. In Basel, the investment decisions of Baloise and the other insurers have a significant influence on the local capital market.

The prolonged period of low and negative interest rates after the financial crisis of 2008 placed the Swiss life insurers under pressure, because the returns on their bond portfolios fell below the interest rates guaranteed to policyholders under older contracts. Several Swiss life insurers withdrew from certain segments of the market, among them the full insurance of occupational pensions, in which they had guaranteed both the investment returns and the benefits. The experience showed the vulnerability of long-

term guarantees in a changing interest rate environment, a lesson that Part I examines.

1 Notes

1. On the investment of the technical reserves of Swiss insurers (tied assets, gebundenes Vermögen) and the supervisory rules on permitted investments, see Art. 17 ff. ISA (SR 961.01) and the Insurance Supervision Ordinance. To be verified. ↩

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