

Liechtenstein and the EEA passport

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Liechtenstein offers a second European base for wrapper insurers. As a member of the European Economic Area, it applies the Solvency II framework and its insurers may sell policies in the European Union under the freedom to provide services. The Liechtenstein Financial Market Authority (FMA) supervises the insurers. The insurance sector of the principality grew rapidly after the country's accession to the EEA in 1995 and was built in large part by Swiss insurance groups, which used Liechtenstein subsidiaries to reach EU customers that their Swiss companies could not serve directly.¹

The Liechtenstein Insurance Contract Act was originally modelled on the Swiss Insurance Contract Act and retains provisions on beneficiary designation and creditor protection that resemble the Swiss rules. A designation of the policyholder's spouse or descendants as beneficiaries protects the policy, within limits, against enforcement by the policyholder's creditors. Liechtenstein practice also allows irrevocable beneficiary designations and the assignment of policies, which are used in asset protection structures. These features, combined with the proximity of the principality to the Swiss banking centres and the reputation of Liechtenstein for discretion, made the country a preferred location for wrapper insurers in the 1990s and 2000s.²

The same reputation became a liability after 2008. The purchase of data on clients of a Liechtenstein bank by the German authorities in that year, the international pressure on bank secrecy and the introduction of the automatic exchange of information changed the business model of the Liechtenstein insurers. Policies that had been sold to clients who did not declare them to their tax authorities became a risk for the insurers and their distributors. Several insurers left the market, merged or sold their portfolios. The remaining insurers concentrated on tax-compliant business and on products designed for particular countries of residence.³

Liechtenstein insurers also served the Swiss market in a special way. Since a Swiss resident can conclude a policy with a foreign insurer, Liechtenstein policies were sold to Swiss residents who wanted the flexibility of a dedicated fund. The federal stamp duty on single-premium life insurance and the treatment of such policies for Swiss income tax purposes apply regardless of the domicile of the insurer, so the location of the insurer offers Swiss residents no tax advantage. The choice of a Liechtenstein insurer is made for reasons of product design and investment freedom.⁴

1 Notes

1. On the development of the Liechtenstein insurance sector after EEA accession in 1995, see the annual reports of the FMA Liechtenstein and of the Liechtenstein Insurance Association (LVV). Figures to be verified. ↩
2. See the Liechtenstein Versicherungsvertragsgesetz (VersVG) and the literature on asset protection through Liechtenstein life insurance. The extent to which the creditor protection of Liechtenstein law is recognised in insolvency or enforcement proceedings in other countries is disputed. To be verified. ↩
3. On the restructuring of the Liechtenstein life insurance market after the end of bank secrecy and the introduction of the automatic exchange of information, see the reports of the FMA and the press coverage of insurer exits and portfolio transfers. Status to be verified. ↩
4. On the application of the federal stamp duty on insurance premiums (Art. 21 ff. StG) to policies concluded by Swiss residents with foreign insurers, and the duty of the Swiss policyholder to pay the stamp duty in such cases, see the Federal Stamp Duties Act and the practice of the Federal Tax Administration. To be verified. ↩

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