

The legal quote and the price of guarantees

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The participation of insurers in occupational provision is regulated by a special rule intended to prevent them from retaining too large a share of the profits. Since the first BVG revision, insurers operating in occupational provision must keep a separate operating account for this business and disclose it annually. The so-called legal quote (*Legal Quote, Mindestquote*) requires them to allocate at least ninety per cent of the earnings from this business to the insured persons, either as benefits, as reserves or as surplus participation. The remaining ten per cent at most may be retained as profit by the insurer.¹

The legal quote has been debated from its introduction. Critics on the left argue that the ten per cent profit share is too generous, since it is calculated on gross earnings and allows insurers to earn substantial profits on a compulsory social insurance. Insurers reply that the quote compensates them for the capital they must hold to guarantee the benefits, which is especially costly under the Swiss Solvency Test. FINMA publishes an annual report on the operating accounts, which shows the amounts distributed and retained and has become a regular reference point in this debate.²

The experience with full insurance confirms a lesson that chapter III of this Part drew from the history of individual life insurance. A promise of guaranteed returns over decades is valuable to the insured person precisely because it is difficult to keep. When interest rates fell and the cost of keeping such promises rose sharply, insurers responded by reducing the guarantees they offered on new business. In the field of occupational pensions, where the legislature had fixed the guarantees itself, the response took the form of withdrawal from the model. The decline of full insurance is therefore the clearest example of the vulnerability of long-term guarantees that the earlier parts of this book anticipated.³

1 Notes

1. On the legal quote (minimum distribution ratio) of at least 90 per cent in occupational provision under Art. 37 of the Insurance Supervision Act (ISA, SR 961.01) and Art. 139 ff. and Art. 147 of the Insurance Supervision Ordinance (AVO, SR 961.011), and the separate operating account, see the federal legislation. Article numbers to be verified. ↩
2. On the debate over the legal quote and FINMA's annual publication on the disclosure of the operating accounts of life insurers in occupational provision, see the FINMA reports and the parliamentary interventions on the subject. To be verified. ↩
3. On the vulnerability of long-term guarantees in life insurance and occupational pensions in a low-interest-rate environment, see the FINMA risk monitors, the reports of the OAK BV and Part I, chapter III, of this book. To be verified. ↩

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