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Autorité fédérale de surveillance des marchés financiers FINMA
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Swiss Financial Market Supervisory Authority FINMA

Minimum quota: distribution of surpluses from the second pillar

Life insurers manage around one fifth of the assets in the second pillar and insure some 1.8 million employees. The law dictates how much profit these private companies are allowed to make, with the so-called minimum quota setting clear limits. FINMA ensures that the rules are complied with in this regard.

Life insurance companies play an important role in occupational pension schemes in Switzerland. They cover the risks of old age, disability and death for personal and group pension funds that are not big enough to bear all or parts of their insured risks themselves. These pension schemes sign group life insurance contracts with the private insurers for this purpose. The insurers, for their part, are subject to a rigorously supervised solvency regime and must, as private-sector companies, have enough available capital. The cost of raising this capital is financed from their operating income.

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Minimum quota limits life insurers' share of operating income

The question thus arises as to how operating income is divided up between life insurers and their policyholders. Too great a share for the life insurers would mean that they would accrue unjustified profits. This could potentially lead to a public debate over the unfair treatment of policyholders. There would be a considerable risk of irreversible damage to the reputation of the second pillar system as well as that of the insurers. If, on the other hand, the life insurers' share was too small, the risk would be that they might lose interest in providing pension funds and thus write much less business. This would have a negative impact on small and medium-sized companies in particular because they depend on life insurers to cover all of their pension-related risks.

In Switzerland, the issue of dividing up operating income is resolved using the minimum quota. This instrument was developed by the legislature to limit life insurers' profits and protect the interests of their policyholders. It is the share that must be used for the

Distribution of operating income from group life business in accordance with the income-based method; 90 per cent of income goes to policyholders, while no more than 10 per cent goes to life insurers.

collective benefit of policyholders. Actuarial criteria are then used to calculate the share of surplus to be paid out to each individual policyholder from this fund.

Large part of operating income paid to policyholders

The minimum quota is thus the percentage of operating income used for the collective benefit of policyholders, with the rest retained by the life insurer. The Federal Council has stipulated that 90 per cent of the income generated from premiums (excluding savings premiums) and investment returns must be used for the collective benefit of policyholders under normal circumstances. In the case of savings premiums, 100 per cent must be used for the benefit of policeholders. This income-based method therefore results in CHF 9 out of every CHF 10 in income going to policyholders, with no more than CHF 1 going to the life insurers (see chart).

A share of the life insurer's operating income goes to the surplus fund for the collective benefit of policyholders. A further share is used to strengthen the insurer's technical provisions. The insurer must ensure that mathematical provisions for old age, survivors' and disability pensions keep pace with interest rate and mortality trends. The strengthening of provisions is financed from the gross income generated by all three processes. The aim is to ensure that life insurers have sufficient technical provisions. Insurers that meet this regulatory requirement are guaranteed to be able to fulfil 100 per cent of their contractual obligations at all times.