STATE OF THE MARKET 2024

Review and outlook as well as trends in the Swiss insurance market

Gallagher

Insurance | Risk Management | Consulting

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Foreword

Dear Reader,

I am delighted to be able to send you the latest edition of the 'State of the Market 2024'.

Over the past year, some risk trends have strengthened further: Geopolitical unrest is leading to adjustments in insurance terms and conditions, while cyber risks and digitalisation/artificial intelligence are influencing traditional risk scenarios. Climate change and its impact will remain at the heart of many companies' risk management in 2024. However, we also see positive growth signals from the Swiss economy, which should give us a tailwind for a successful 2024.

While the insurance market is once again more risk-on in many sectors, in other sectors, we continue to see more restrictive underwriting practices that are very focused on risk selection. As a result, we can see positive signals on the insurance market for innovative companies that regularly review and continue to develop their own risk management.

Take a look over the shoulder of our specialist brokers and read what the Gallagher experts are reporting on insurance market trends in 2024.

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Interview on the Art Insurance Market

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Tell us about the most spectacular claim of your career

This title certainly goes to the theft of the Saliera (Cellini Salt Cellar) from the Kunsthistorisches Museum in Vienna. On 11 May 2003, following an evening event on the museum's premises, the motion detector in the art gallery on the first floor sounded at around 4:00 a.m. The building was surrounded by scaffolding due to renovation works. The security officers on-site did acknowledge the alarm but did not respond, as they assumed it was a false alarm. The alarm was reset without anyone looking at the situation on-site. Consequently, the police were not called either, which is why the break-in was only noticed the following morning. A window had been smashed, the display case destroyed, and Cellini's only extant (and secured) work in gold.

This was 'spectacular' not just because of the monetary and cultural damage that was caused, but also definitely because of the boldness of the thief, who was only able to escape due to the ignorance of the security personnel. The claim was settled with a double-digit million sum. After the theft, a global search ensued. Attempts were made to get in contact with the perpetrator through daily newspapers, and ransom demands followed. Three years later, finally, a 50-year-old safety technician was convicted. The damaged work of art was finally returned to the museum after extensive restoration.

Of course, when asked about spectacular claims, you also instantly think of the paintings 'The Scream' and 'Madonna', taken from the Oslo Munch Museum in 2004, or the armed robbery in 2008 in which masterpieces by Van Gogh, Monet, Dégas, and Cézanne were stolen from the E.G. Bührle art collection in Zurich's Seefeld district. The bold jewel theft from the Green Vault in Dresden also made headlines in 2019.

There are some minor claims that usually do not end up in the press, even though they are almost amusing and don't involve any organised crime, gang crime, weapons violence, broken display cases or INTERPOL, but are still somehow spectacular. Such as the 3-year-old daughter of an art collector who cut figures out of a large-format oil painting with nail scissors, or the cleaning woman who confused a paper installation with the Christmas decorations and threw out half of the artwork. Both of these are claims that I personally had on my desk.

When I entered the art insurance industry in the late '90s, the person who trained me — with a visible grin on her face — told me about a claim where mice were held not liable for nighttime damage to sculptures made of icing.

Are such cases insured?

If there is an art insurance policy in place, normally yes. The so-called 'all-risk cover' offered by an art insurance policy applies to all cases that are not explicitly excluded. Although you should always be aware of the 'small print' here as well and take advice from specialist providers, all the risk events mentioned above are insurable. Of course, always subject to the condition that the damage was not caused intentionally or fraudulently by the insured person.

However, if you do not have any special art cover and include works of art in a household contents or business insurance that only covers named risks or has exclusions that would be avoidable, the situation naturally looks very different.

Which customers should be interested in art insurance?

Here I would first of all distinguish between the private and commercial sectors.

Private collectors should seriously consider an art insurance policy if their collection is valued at 50,000 Swiss francs or more. Especially since the price difference between this and the much weaker alternative of household contents insurance is not generally very large.

In the corporate sector, if we are talking about corporate collections, a good insurance advisor will always advise special cover if the business insurance cannot provide the same level of cover. This relates not only to the scope of cover, but also to the basis for calculating the insured value. This is a significant point because, generally, valuable works of art are one of a kind that cannot be easily replaced and that do not have a 'list price'.

When taking out art insurance, there is the option of arranging 'agreed values' for the individual works of art when the contract is signed. Differences in approach to valuation questions can thus be negotiated in advance.

Experience shows that only agreeing the value of an artwork with the insurer once there is a claim is stressful and not very effective. This is because, depending on whether a work is bought and sold privately, is sold through a gallery or art dealer, or comes under the hammer at an auction house, market prices can vary enormously.

Art insurance policies are a must for auction houses, galleries, and art dealers. On the one hand, they are liable for property belonging to third parties that is handed to them for sale under commission.

On the other hand, even some minor damage to a valuable work can lead to a massive drop in the resale value. Such impairments, which can result in a claim, are always covered as part of a good art insurance policy.

Finally, if we look at the subject of museums and exhibition halls, along with the commercial aspect, there is also the issue of preservation of cultural assets and their educational mission, which is particularly the task of state institutions.

Of course, an art insurance policy covers the restoration costs through the use of qualified restorers, even if restoration takes years or state-of-the-art technologies have to be used to achieve the best possible result.

Insurers that provide art insurance have specialists who know the art market and its special characteristics in both their underwriting and claims departments. A broker specialising in the art sector will work with their own comprehensive special terms and conditions and will best represent the interests of their customers to the insurers. Both the art market and the art insurance market are quite distinct from other consumer goods markets and other forms of insurance. Those who are not familiar with these market niches will not achieve the best results for their customers.

Art has been around for many centuries. Are you also noticing changes in the art market, for example, with digital art such as NFTs? And are there works of art that are intrinsically not insurable?

It's true that the art market and especially the art scene are constantly changing. This has visibly been the case throughout the history of art, from antiquity to the present day, and is not surprising because the production, presentation, and reception of art is always shaped by the social environment in which it takes place.

The effects work in both directions. Classic genres such as sculpture, painting, or drawing are extended by serial production techniques or digitalisation. Everyday objects are declared to be art simply by placing them in a new context. Or the item itself disappears completely because the concept, or the idea, is now declared to be art.

Online marketplaces and online auction platforms have joined the classic art dealer, gallery, and auction house with a sales floor.

The whole topic of digital art/crypto art/NFTs that you referred to is a good and comparatively recent example of how the art scene is using and driving new technologies — in particular blockchain technology.

The 'digital revolution' has also massively changed the art industry. Physical art is tokenised, or purely digital crypto art is created and traded for cryptocurrency on digital platforms.

The need to attribute to a virtual image the same original character as a physical work of art is contemporary and justified. It would therefore be fair to separate this aspect from the hype and the sometimes astronomical prices achieved by NFTs.

Whether the nearly USD70 million that Beeple's NFT 'Everydays: the First 5000 Days' achieved at Christie's in March 2021 was a sound investment still remains to be proven.

> It is easy to see that insuring art is an immense challenge, and that established insurance solutions need to continuously develop and adapt rapidly, given the constant change in the art scene.

Are there works of art that are intrinsically not insurable? I think not. The question is more about which potential risk events are insurable in individual cases. As long as we talk about unforeseeable risks that can be calculated in terms of risk assessment techniques and thus can be assigned a monetary value, good art insurance brokers and more experienced art underwriters should always be able to develop a customised cover plan. And if, as in the case of the NFTs mentioned above, it is interdisciplinary, this should be done jointly with the specialists in cyber insurance.

Overview of Premium Development

- Liability
- Property
- Engineering
- Fine Art
- Motor
- Marine Cargo
- Management Liability
- Cyber
- Financial Institutions
- M&A
- Accident and Health

Property Insurance

Review of the insurance market 2023

As in the two previous years, pressure on premiums continued. The continued heavy claims burden resulting from a high incidence of major losses caused by fire/explosion and natural disasters is weighing on primary and reinsurers worldwide.

Within insurance companies, the focus remained on reducing capacity, achieving a selective underwriting policy and the scope of coverage. Insurers also placed greater emphasis on risk information, the calculation of insured sums and customers' risk management.

Since the main focus of the primary insurers in Switzerland in previous years was on 'international insurance programmes' and policies with a high level of claims, in 2023, policies with a good claims history and purely national policies will be in the focus of the insurers.

Outlook for the insurance market 2024

Uncertainty caused by rising claims costs, inflation, global tensions and international supply chains continues, and impacts premiums and capacity levels.

We expect further reductions in the scope of coverage, as well as capacity level adjustments with simultaneous premium adjustment. This will not only affect risks with a high level of claims, dependencies, and increased exposure to natural hazards, but also individual types of businesses as well as risks that have not previously entailed an increase in premiums.

Risk trends and developments

The claims trend of recent years will continue, also due to climate change. This will lead to a further reduction in capacity for natural risks. Due to the reinsurance costs increasing by over 20% for earthquake coverage, we expect a further increase in premiums for contracts with earthquake coverage.

Insurers' terms for fire cover are becoming more stringent, so it is important to include us in a timely manner in any planned changes, such as construction projects or installation of a photovoltaic system.

Your own risk management is becoming increasingly important. Those who know their risks and manage them can have a positive impact on their risk quality. This influences insurers' risk assessment and can be a decisive factor in acceptance.

The trend of transferring more risks to international markets continues. Generally, however, these are no cheaper and can have greater restrictions on cover, and the deductible requirements are also significantly greater than in the Swiss insurance market.

Premium trends over the next 12 months

We expect a persistently high level of premiums. Premium increases will generally be between 5%–10%. However, there will also be exceptions in one direction or the other. This will depend on the individual risk parameters. Contracts that have not seen a premium increase in the last 3–5 years may even see the previous premium doubling.

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Art Insurance

Review of the insurance market 2023

While preceding years were heavily influenced by the coronavirus pandemic, last year, the art exhibition insurance segment in particular recovered. The increase in museums' activities increased the level of loans, even though the overall volume remained below the 2019 figures.

The art market itself was generally stable at a high level in 2023, with the trend of a shift towards the top-end continuing. This is shown both by the results of the large auction houses and also the published figures of the primary art fairs and dealers.

Art as an alternative investment remained attractive due to the persistently high level of political and economic uncertainties in Europe.

The specialist risk bearers continued to pursue a high-price strategy with restrictive underwriting, despite the resurgent turnover in the art insurance sector. New market participants, with a naturally greater risk appetite, were able to compensate for this only to a limited extent.

Outlook for the insurance market 2024

Overall, we expect prices to remain similar to last year's, with insurers' willingness to make concessions in terms of pricing also increasing, in contrast to the crisis years of 2020 to 2022.

The very attractive business area of art insurance will attract new market participants, which will lead to increased competition.

Companies such as HDI, Generali, or DUAL, which have invested in the art insurance sector in recent years, will continue to seek market share. There will therefore be movement, especially in the area of the attractive top accounts.

The exhibition calendars of the large museums are once again showing a greater willingness to stage elaborate blockbuster exhibitions, which will in turn invigorate the art insurance market.

Overall, we expect a significant increase in turnover compared to the previous year.

Trends

The geopolitical situation will continue to influence underwriting by art insurers, with the tight supplier market slowly softening.

The risk bearers will meet the challenges with further imposed clauses that will sit alongside the clauses already established in the market, such as territorial exclusion clauses, limited cyber coverage clauses (targeted cyber attack write-back) or communicable diseases clauses.

The 'undiscerning' underwriting that occurred in places in the pre-coronavirus years will become history thanks to the lessons the reinsurance market, among others, has learned since 2020.

> The overall trend towards new artistic forms of expression, such as 'artificial intelligence art' or 'new media art' will give birth to innovative insurance solutions across lines of business.

Further general insurers will become involved in the attractive niche of art insurance.

The highly specialist and sparsely populated art insurance broker market will, on the other hand, remain stable due to high barriers to entry.

Here, the trend towards market concentration to a few providers is likely to continue, on the one hand, by way of mergers or collaboration between specialist brokers and, on the other hand, through further acquisitions by large brokerage companies expanding their product range to include fine art and specie.

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Liability Insurance

Review of the insurance market 2023

While the market reached a stable level overall, it remained challenging to obtain appropriate premiums and terms for certain risks. Underwriting continued to be more stringent, particularly for risks associated with vehicle recalls, high potential for serial damage, and significant US exposure. Risks associated with PFASs also came under increased scrutiny and a trend toward extensive exclusions emerged.

The premium level appears to have levelled off, with the entry of new providers to the market showing positive effects. At the same time, however, this was counteracted by inflation and the situation remained tense, particularly for challenging risks. Restrictions on conditions and limits, as well as higher deductibles and premiums, were observed.

Outlook for the insurance market 2024

It is likely that restrictions and negative adjustments will still be required for more critical risks. For good risks, a stable premium level is expected, with continued in-depth underwriting. The need for information for placements is expected to increase further.

Trends

In addition to the usual topics such as US-exposed risks, medical technology, and automotive risks, there are two trends that are relevant not only in the short term:

PFAS (per- and polyfluoroalkyl substances) are a group of chemicals used in many products and are considered an environmental and health risk. In which PFAS are handled is a major concern for the insurance markets and there is a tendency to quickly demand exclusions when it is known that PFAS are being used. It remains to be seen whether more constructive approaches and possible insurance solutions can be found over time.

Another trend influencing the third-party liability insurance market is social inflation. This refers to the tendency of claimants to submit claims for higher damages, and of courts to award greater damages. This leads to a worse assessment of the total damage and, ultimately, higher premiums. Social inflation is a global phenomenon that also affects the Swiss third-party liability market, particularly in connection with insured export risks.

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Transport Insurance

Review of the insurance market in 2023

The transport insurance market was still experiencing less pressure than other sectors in 2023. It was generally still possible to obtain attractive offers for well-documented and well-performing risks. However, risk assessments were carried out more carefully and thoroughly by all Swiss insurers than in the past. In the case of risks that were not fully documented, not only was the premium increased — as was in the previous years — but often no quotations were submitted at all by the insurers.

Loss-affected risks could only be placed with difficulty and in most cased at significantly worse conditions. Combined transportation and warehouse insurance was only insurable in rare and exceptional cases. The willingness of insurers to assess and accept non-standard risks has decreased significantly.

Outlook of the insurance market in 2024

It can be expected that the trends observed in 2023 will continue throughout 2024. It is very important for transport insurers that risks are well and fully documented. This means a lot of work for all parties involved, but it ultimately provides great rewards.

Trends, risk developments, and benchmarking

Clients and brokers will have to make an even greater effort to fully and professionally record and process existing risks for insurers. Unlike in other insurance branches, marine insurers are still willing to accept high-quality broker wordings. It can be expected that the combination of the aforementioned factors will bring good results for the clients.

Premium trend over the next 12 months

Premium development in the transport insurance segment is inconsistent. Nevertheless, we expect premiums to remain stable overall. If the claims situation is poor, we expect that insurers will be prepared to demand significant, even drastic, adjustments to cover and premiums than in the past.

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Management Liability Including Cyber

Review of the insurance market 2023

While we saw a very competitive insurance market in the area of management liability and, within that, especially for D&O, insurers are still being very cautious when underwriting cyber risks — although we have probably also reached the peak here in terms of premiums and we are only seeing minor increases after years with enormous raises in premiums.

Many new providers have entered the market, especially in the area of D&O, although the ability to handle international implementation of insurance programmes and claims processing remains a key point.

The terms and conditions for cyber insurance remain dynamic, and the insurance market has reacted to the geopolitical situation with detailed clauses regarding the ability to insure against war and terrorism. The market has also responded to current trends and has introduced new clauses to clarify coverage of infrastructure (e.g., electricity).

Outlook for the insurance market 2024

The market for D&O insurance will remain very competitive, and we continue to see improvements in the area of cyber insurance, despite 2023 showing an increased frequency of claims compared to 2022. Whether this trend will continue remains to be seen.

We also note that, once again, it is becoming more important to check that an adequate sum has been insured, after frequently limited financial budgets impacted the purchase of insurance.

Risk trends and developments

Environmental, social, and governance (ESG) will remain an important driver, but the focus could shift slightly as we discern some uncertainty, and actions have been brought by investors against boards or management in international businesses relating to failure to reach targets or keep promises.

So we will be monitoring macroeconomic developments closely. Higher interest rates associated with higher inflation may lead to lower margins, the lack of skilled workers to less innovation, and a review of investments may lead to generally lower growth in business.

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Financial Institutions

Review of the insurance market 2023

Driven by international insurance markets (the London insurance market is particularly relevant for Switzerland), premiums for financial institutions also came under pressure again in the last few months in 2023 — i.e., buyers can now negotiate better terms and conditions. This was partly due to very large increases in previous years. In any case, we have again seen some levelling here in the second half of the year. At the same time, regulation and monitoring by supervisory authorities remains high for financial institutions, which on the one hand has led to an increase in demand, but on the other hand has also increased the risks for those responsible.

As a result, we have noticed increased demand from financial institutions for cyber insurance in recent months. The reasons for this are very diverse. But in any case, it is indirectly due to increased demands from their customers and from the regulators.

Outlook for the insurance market 2024

Given that the sector was pretty turbulent in 2023, some were able to close deals that became profitable due to the higher interest rates. Overall, we can expect the market for financial institutions to improve modestly, despite the increased willingness of insurers to underwrite these risks.

For asset managers, we can see an increased risk appetite on the part of insurers, whereas there are only a few insurers still willing to contract for these risks for institutions that work with digital assets. Here you need to seek advice from a specialist broker who can approach these insurers.

Risk trends and developments

Environmental, social, and governance (ESG) remains a major trend, particularly for funds where a large number of providers have now received a rating. In this area, we are already seeing a stricter approach by regulators, especially in the US, and assume that this will also become the case in Europe and Switzerland in the medium term.

> With new technologies and further digitalisation, cyber risks will develop further, and the corresponding technical/procedural controls will continue to be an area of ongoing investments.

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Technical Insurance/ Engineering Lines

Review of the insurance market 2023

Technical engineering insurance has experienced significant losses in the past few years, consequently 'hardening' the market. This hardening of the market has resulted in higher premiums and stricter underwriting criteria, which also continued in 2023. As noted, insurers have become more cautious and selective in underwriting those technical engineering risks.

Another important factor noted was the duration of projects. Projects have been taking much longer time to be fully commissioned, with delays significantly exceeding initial estimates and in some cases, delays were as higher as 'double' the execution timing of some complex projects. In addition, inflationary pressures have driven up the costs of materials, labour, and other inputs, resulting in a significant increase on the estimated projects investments costs.

These factors combined increased the exposure to risks and uncertainties, making it more challenging for insurers to accurately assess and price the risks involved.

Outlook for the insurance market 2024

The insurance market in 2024 is expected to continue performing as in 2023: e.g., hard market. In addition, areas highly exposed to Nat Cat are likely to have policies with restrictions in coverage and the related Nat Cat available capacity is expected to be reduced.

More than ever, the market will be focused on 'Green Energy' related projects. This includes photovoltaic plants, CO_2 emission reduction initiatives, waste-to-energy/biomass facilities as well as high-tech risks commissioning high-tech distribution centres.

In general, no new technical engineering insurance capacities are expected to be seen in 2024.

Trends

The trend is indeed focused on regulatory and environmental related projects as well as sustainability.

Another trend is the increasing importance of risk management and loss prevention measures. Insurers are likely to place greater emphasis on the implementation of robust risk management practices by policyholders. This may include requirements for regular inspections, maintenance protocols, and adherence to industry best practices. By promoting risk mitigation, insurers aim to reduce the frequency and severity of losses, ultimately benefitting both policyholders and insurers.

Additionally, advancements in technology are expected to have a significant impact on the technical and engineering insurance. The increasing use of automation, artificial intelligence, and data analytics in various industries presents both opportunities and challenges. Insurers will need to adapt their underwriting processes and risk assessment methodologies to account for these technological advancements. This may involve partnering with technology providers or investing in their own technological capabilities to better understand and underwrite emerging risks.

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Motor Vehicle Insurance

Review of the insurance market 2023

Premiums for individual policies were unable to stay at the levels of preceding years and were moderately improved by companies with a premium increase between 5%–10%.

The trend of the previous year in motor vehicle fleet insurance continued in 2023. Risks that performed well continued to benefit from competition in tenders, and insurance cover was purchased at very attractive premiums.

> Motor vehicle fleet contracts with negative claims ratios of 80% or more were consistently restructured or at least tagged for action.

Outlook for the insurance market 2024

We expect insurers to continue along the path towards profitability.

Due to inflation and the continued disruption in supply chains for spare parts, the cost of claims for motor vehicle insurers will rise again significantly. As a result, we expect premiums to increase overall in the area of motor vehicle insurance.

Individual pricing, taking into account the number of claims, remains the main criterion for setting premiums for fleet insurance.

The discounts granted to date for electric vehicles are continuing to come under pressure due to their significantly higher repair costs. Damage to new vehicles can also often only be repaired through the replacement of entire assemblies.

Trends, developments in risk, and benchmarking

In the area of MV fleet products, the ability of insurers to innovate tends to lag behind that of individual policies. This means that new initiatives can and should be expected, especially in the area of fleet insurance. Due to the increasing proportion of electric vehicles and the growing modernisation of vehicle electronics, personalised cover components are to be expected.

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M&A Insurance

Review of the insurance market 2023

High interest rates, geopolitical tensions, regulatory interventions, and other macroeconomic uncertainties made 2023 another challenging year for the M&A insurance market. By the end of the third quarter, global deal activity was at its lowest level since 2013. The volume of mega deals fell 42% year-on-year (to a lesser extent for smaller deals). It was the second consecutive year in which M&A activity fell by double digits.

All of this has had the corresponding effects on the insurance market: Insurers have increased capacity (after a profitable 2021 and 2022), and new insurers have come in, which has led to greater overall supply and hence more competition.

Premiums have also fallen accordingly. In Europe and the UK, average premiums fell to below 1% of the insured limit after being around 1% in the preceding years.

Outlook for the insurance market 2024

Cover extensions from the US are now also becoming available in Europe, and cover for known tax matters is also increasingly available. This will continue in 2024.

We therefore see that insurers are now also willing to cover smaller transactions, meaning that, overall, we see a steadily growing share of transactions being insured with W&I cover.

Trends, developments in risk, and benchmarking

However, there are also positive signs. Private equity companies and large concerns are once more increasingly willing to invest. Financial market participants expect the European interest rate landscape to continue to stabilise, which will ultimately lead to greater certainty for loans. This, in turn, will somewhat increase M&A activity.

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Personal Insurance

Review of the insurance market 2023

The year 2023 was extremely challenging for insurers. With weather disasters, war, energy crises, rising inflation, and non-buoyant stock exchanges, many insurers suffered losses. Therefore, the per diem sickness benefit insurers also tended to be rather cautious, and selected the specific risks they would underwrite.

Accident insurers recorded a significant increase in accidents and occupational diseases. Leisure accidents increased particularly sharply. The increase in e-scooter accidents was significant and mainly due to the weather. Wet and dirty roads cause accidents that do not involve other parties. Other factors are the unstable handling of e-scooters and drivers who do not protect themselves adequately or at all. Suva (the Swiss National Accident Insurance Fund) reported a twenty-fold increase in this type of accident within a very short period of time.

Outlook for the insurance market 2024

We do not expect any relaxation in the current difficult market. Insurers are becoming more selective overall with regard to the risks they will insure. The interest in short waiting periods on the part of insurers is also rather low. Customers with good company health management can score better with insurers.

Trends, developments in risk, and benchmarking

The importance of occupational health management is increasing significantly. We see a significant reduction in short-term absences in companies that consistently implement structured absence management. For long-term absences, absence management results in a faster average return to work. This significantly reduces the pressure on remaining employees and the financial burden on the companies.

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Occupational Pension Fund

Changes 2024

Many changes are due to occur in 2024. With reforms to AHV 21 (retirement and survivors' pensions) in particular, it is not only the first pillar that is undergoing changes. What is interesting is that AHV 21 will also cause adjustments to be made to the LPP (law on occupational pension schemes). To provide a comparison, I will summarise the most significant points of change from the first pillar (AHV) and the second pillar (LPP).

AHV

The normal retirement age for women and men of 64/65 is now referred to as the 'reference age'.

The reference age of women will gradually be adjusted to 65. This adjustment takes effect from 1 January 2025 and relates to those who were born between 1961 and 1963. The reference age will be increased by 3 months each year. Therefore, women born in 1964 or after will have the same reference age as men, 65 years old, from 2029. However, women born between 1961 and 1969 receive a lifelong AHV supplement on regular retirement. For those on lower incomes, the pension supplement is higher and is graduated by age. It amounts to between CHF 12.50 and CHF 160 per month with a full contribution period.

Non-retired pensioners can now decide whether the previous AHV exemption amount of CHF 1,400/month will continue to apply, or whether AHV contributions should be charged on this. If employment is continued beyond the reference age, up to a maximum of 5 years, under certain conditions (if you have not yet reached the maximum pension in 2024, of CHF 2,450 — married couples CHF 3,675) the AHV contributions can have a positive effect on the old-age pension. Two conditions must be met for this to happen:

1.) The income earned after reaching the reference age must be at least 40% of the average, undivided and revalued income (excluding parental and/or care credits) for the reference age; and

2.) The contribution paid annually on the earned income must at least equal the annual minimum contribution (2024: CHF 514).

It should also be noted that you are only entitled to a single, one-time pension recalculation after the reference age. You can select the timing of the pension recalculation freely.

Starting in 2024, flexible pension payments will be increased. There will not only be the option of withdrawing the retirement pension 1 or 2 years in advance, but you can now also request a partial payment in advance. The part can be claimed either in francs or as a percentage and must be between a minimum of 20% and a maximum of 80% of the retirement pension to which you are entitled. The start of pension payments is not linked to the reference age, and they can be prepaid for 1 to 24 months, or payments can be delayed for 12 to 60 months. A one-time only increase in the percentage partial advance payments is possible.

In order to guarantee the stability of the AHV for the next 10 years, VAT will be increased by 0.40%. We do not cover the other amendments to AHV 21 in this document.

Only the points listed here constitute a need for action by pension funds and are described below.

LPP

The pension regulations of the pension funds must be adjusted to rename references to the normal retirement age to the 'reference age'.

Generally, the reference age is the same in the first pillar (AHV) and the second pillar (LPP). However, pension funds can offer receipt of benefits starting at a lower age in their rules, but no lower than 58.

In the case of flexible retirement, the pension funds have more leeway than the AHV. Accordingly, more versatile design options are possible here. An adjustment is only needed here if no advance payment from age 63 or no delay until age 70 is currently possible. This ensures harmonisation between the AHV and the LPP.

The term 'partial retirement step' is now clearly defined (in time not money), and there must be at least 1 year between the individual payments. The pension funds must include provisions for at least three partial retirement steps in the receipt of a pension. On the other hand, pension funds can offer a step smaller than 20% on the first payments.

If someone continues to work beyond the reference age, the pension funds must now offer postponement of the retirement pension until a maximum age of 70.

Vested benefits from accounts and policies are governed by AHV 21. The receipt of these retirement benefits can only be postponed beyond the reference age if employment is continued. This regulation is already applied in the same way within the third pillar. However, there is a transitional provision for this new feature for persons who are no longer employed and would have to draw their pension in the years 2024 to 2029.

Outlook

Once again this year, we do not foresee any major premium changes in the LPP.

At the end of September 2023, the Swiss Chamber of Pension Fund Experts (SCPFE) set the upper limit of the recommendation for the technical interest rate in accordance with Professional Guideline 4. To calculate this upper limit, the average spot rate of the last 12 months is used as the basis (1.132%), plus a surcharge of 2.5%, reduced by a discount for the increase in life expectancy (period table — 0.3%), which results in an upper limit of 3.33%* (period table). This gives pension funds the opportunity to adjust the technical interest rate and thus increase the level of coverage. Some fund registers have already made use of this option.

The pension fund reform proposal was adopted by parliament after fiercely fought debates. However, a referendum has already been held on this. The referendum on the pension fund reform is expected to take place in summer/autumn 2024 or perhaps not until 2025. (The reform includes 5 points — annuity conversion rate will be reduced from 6.8% to 6%, transition generation for the first 15 years will receive financial compensation, age credit will be reduced for older workers and increased for younger people, the threshold level for obligatory pension contributions will be reduced, and coordination deduction will be set as a percentage instead of an amount.)

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