

# Swiss annuities as secure trust investments

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An earlier article examined the advantages of Swiss insurance policies as investments. This article looks at Swiss annuities as secure and versatile vehicles for private investment.

## Introduction

Swiss annuities and life insurance represent one of the most secure investments available today. They are particularly suitable for trustees who are required to safeguard the interest of beneficiaries and to preserve and protect the trust assets.

The Swiss insurance industry is perceived as one of the safest in the world. The country's first insurance company was established in 1857 and the industry has grown substantially since then: it now has 178 insurance companies, 24 of them operating in the life insurance sector.

However, the most remarkable fact is that not a single Swiss insurance company has ever gone bankrupt, failed to meet its obligations or otherwise been forced to close its doors. This track record is unique in the world. In the United States, for example, several major life insurance companies have failed or gone bankrupt. And in 2000 even Equitable Life, Britain's – and probably the world's – oldest life insurer and once one of the proudest names in the industry, had to close its doors to new business. This case actually raised some fundamental questions about the provision and regulation of private pension insurance in the United Kingdom.

In Switzerland, things are quite different. The Swiss Federal Office of Private Insurance regulates all Swiss insurance business by enforcing the strictest regulations known in the industry. Life insurance companies are required to maintain a security fund which covers all their obligations plus an additional security margin. This fund is segregated from the company's operating assets. The investment parameters for the security funds are very conservative, the only priority being their safety and liquidity.

The insurance industry is an important part of the Swiss economy and the Swiss themselves are known to be well-insured: Switzerland has the world's highest per-capita spending on insurance premiums overall, and also the highest per-capita spending on life insurance premiums, as the table in the opposite column illustrates.

The extraordinary stability of the Swiss insurance industry is one of the main reasons why trustees should take an active look at Swiss insurance products

## International insurance ratios

Amount spent on insurance premiums per capita and country (without social security, in US\$, 2004)

	Per capita premiums	Life insurance
Switzerland	5,660	3,431
United Kingdom	4,059	2,617
Japan	3,771	3,003
Ireland	3,670	2,313
USA	3,638	1,658
Denmark	3,116	2,038
Netherlands	3,094	1,562
Belgium	2,876	2,005
Finland	2,714	2,127
France	2,698	1,768
Sweden	2,358	1,602
Norway	2,321	1,323
Germany	2,051	930
Australia	2,041	1,129
Italy	1,913	1,238
Canada	1,872	723
Austria	1,847	811
Hong Kong	1,833	1,484
Singapore	1,621	1,300
South Korea	1,243	874
New Zealand	1,215	272
Spain	1,146	489
Israel	1,041	461
Russia	98	34
China	36	25

Source: sigma/Swiss Re

as investment vehicles. The special advantages offered by Swiss insurance policies in terms of asset protection represent another one. Accordingly, Swiss annuities are interesting alternatives to more complex, more costly and less secure investments.

## Key characteristics of Swiss annuities and life insurance

The world of annuities and life insurance is made up of many different products, providers, costs and terminology that can sometimes confuse even professionals. It is therefore important that trustees (and their advisors) have a good understanding of the features of the different types of products available and which could be the most appropriate.

The following types of annuity and life insurance contracts are generally available in Switzerland:

■ **Immediate Annuity** Secures a regular income for

life - starting immediately. For a one-time payment the insurance company agrees to pay a regular income for a specific period of time, or until the annuitant's death.

- **Deferred Annuity** Secures a regular income for life - starting at a certain date in the future. Accordingly, there are two phases: the accumulation phase, where the money is allowed to grow (like in a pure endowment), and the payout phase.
- **Pure Endowment** Saves a specific sum of money within a certain time. For a one-time payment or with regular premium payments, a specific capital is accumulated until a defined date in the future.
- **Portfolio Bond** Tailor-made, variable pure endowment policy, where the underlying investments are determined individually by the client and are individually directed by an asset manager. Portfolio bonds are sometimes also referred to as "insurance wrappers".
- **Endowment Protection** Saves a specific sum of money within a certain time while also giving life protection during this time.
- **Whole Life Protection** Protects family, personal and business interests with lifetime cover - with the option of receiving a savings component if the protection is no longer needed.
- **Level Term Protection** Protects family, personal and business interests during a certain time only (available only for Swiss residents).
- **Decreasing Term Protection** Protects family, personal and business interests during a certain time only, with the level of protection decreasing in time. This is useful in cases such as the need to pay off a mortgage (available only for Swiss residents).

Of the above-mentioned types, immediate and deferred annuities as well as endowment policies are investment vehicles (even if they contain insurance components, such as, for example, the protection element added to an endowment policy). Whole life protection is a mixed form, as it combines insurance cover with saving components, whereas level or decreasing term protection represent pure insurance without an investment element.

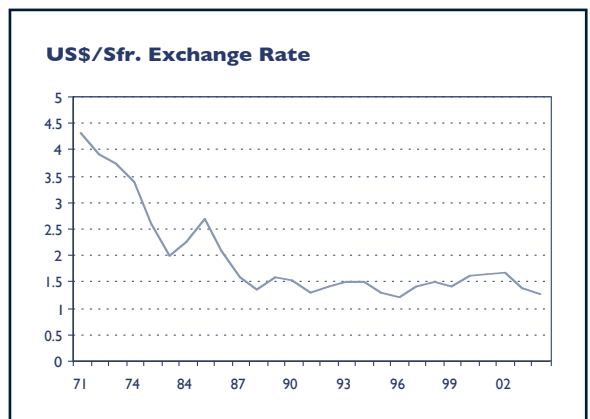
**“Swiss annuities and life insurance policies can be tailor-made to suit the most individual needs.”**

Annuities and those life insurance policies which have an investment component can be further divided into fixed and variable products. The term fixed means that the life insurance company guarantees the principal as well as a certain definite return on the investment,

whereas in a variable annuity or life insurance contract the value of the insurance policy depends on the underlying investments which can be chosen more or less freely by the client. Such underlying investments typically consist of a portfolio of funds, stocks and/or bonds, but specially structured insurance contracts may also include other assets, even including unquoted shares of private businesses and real estate.

Swiss annuities and life insurance policies can be tailor-made to suit the most individual needs. For example, if substantial assets are to be invested through an insurance, it is possible that a specific insurance plan is set up which allows the underlying investments to be organised in individual portfolios through the existing investment manager. Such plans are also referred to as portfolio bonds or insurance wrappers.

Although Swiss insurance policies are available in all major currency denominations, most are issued in Swiss francs. There are good reasons why foreign investors favour Swiss-franc investments. Thanks to the country's political stability and high economic performance, the Swiss franc has remained strong over decades in comparison with other leading currencies. The Swiss franc is arguably the world's strongest currency. Of course this trend may well be reversed at some future time, and investors must be aware that the Swiss franc may also become weaker instead of stronger, incurring the risk of currency losses as well as gains.



A life insurance contract generally involves four different parties:

- The insurer (the insurance company)
- The policyholder
- The insured person
- The beneficiary or beneficiaries

The **insurer** (ie, the insurance company) issues the policy and provides coverage in return for payment of either a lump sum or regular payments, or a combination thereof.

The **policyholder** enters into a contract with the insurer and receives coverage for beneficiaries, one of which may be the policyholder. This is confirmed in the insurance policy, issued by the insurer. As the

contracting partner, the policyholder owes the insurance premiums that need to be paid to the insurer in return for providing insurance coverage. Legal entities (companies, foundations, etc) as well as trusts may be policyholders.

The **insured** person is the one whose life the insurance covers. This can, but need not be, the same person as the policyholder.

The **beneficiary** or **beneficiaries** are those persons who are designated by the policyholder to receive the specified capital from the insurer at either a specified date in the future or in case of the insured person's death, depending on the type of insurance contract. Both legal entities and trusts may be beneficiaries.

## Investment characteristics and returns

Swiss annuities are a type of investment vehicle rather than an investment category, although in view of the special asset protection features and depending on the insurance elements that are included, they can also be looked at as an investment category in their own right.

The word annuity literally means "annual payments" and when an annuity is bought, the insurance company promises to pay an income for a specified period of time. Accordingly, the key questions that must be answered when you invest in an annuity are:

- (a) what does the insurance company promise? and
- (b) will the insurance company be able to keep the promise?

The answer to the first question is, of course, different from insurance company to insurance company, so it pays to compare different offers and quotes. The second question relates primarily to fixed annuities and is less clear as it has two sides. On the one hand, in a fixed annuity the insurance company guarantees a certain return on investment, and – in Switzerland – is legally obliged to keep this promise. This, then, depends fundamentally on the financial strength of the insurance company and the stability and security of the jurisdiction in which the insurer operates. Switzerland is arguably the safest and most stable jurisdiction in the world. But equally important, Swiss life insurance companies are required to maintain a security fund which covers all their obligations plus an additional security margin. This fund is segregated from the company's operating assets. Therefore, even if a Swiss insurer were ever to go bankrupt (none ever has since the existence of the Swiss insurance industry!), investments of policyholders are still safe. The other side of the answer relates not to the guaranteed minimum return, but to the surplus participations, which are not guaranteed but which the insurance company expects to pay out. Whether or not an insurer is able to meet these projected surplus participations depends on such factors as interest rate developments, general investment market returns, and how well the insurance company manages the assets

for which it is responsible. It is important to review how a particular insurer has managed to meet expectations in the past, and here the differences between different insurers are considerable.

Swiss annuities offer instant liquidity. All capital, plus all accumulated interest and dividends, is freely accessible. Depending on the type of annuity, a minimal penalty in case of withdrawal applies only to an initial period of up to one year. So if funds are needed quickly, they are available and not tied down for a fixed period of time. Furthermore, all Swiss banks will give loans and accept Swiss life insurance policies as collateral.

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Swiss annuities are generally arranged on a no-load basis, so there are usually no additional charges or costs and the investment can be cancelled at any time, almost without loss of principal or accumulated interest and dividends.

### Example:

Let us assume the person to be insured is male, born 1st July 1955, and the effective date of the insurance shall be 1st October 2005, with a 10 year deferment period. The duration of the insurance shall be on the insured person's life.

With an initial investment of CHF 500,000:

Guaranteed annual annuity	CHF 22,764
Supplementary annuity	CHF 1,919
by conversion of the surpluses account *	
Sub-total	CHF 24,683
Surpluses for running annuities *	CHF 3,109
Total	CHF 27,792
Surpluses account at the end of the deferred period *	CHF 48,335

## Benefits in case of surrender, at the end of year

Year	Surrender			Premium-annuities
	Guaranteed	Participation*	Total*	
1	484,024	1,016	485,040	500,000
2	493,221	3,108	496,329	500,000
3	502,592	6,337	508,929	500,000
4	512,142	10,766	522,908	500,000
5	521,874	16,461	538,335	500,000
6	531,787	22,374	554,161	500,000
7	541,892	28,511	570,403	500,000
8	552,188	34,879	587,067	500,000
9	562,680	41,485	604,165	500,000
10	573,370	48,335	621,705	500,000
11	550,609	46,416	597,025	472,208
12	527,845	44,497	572,342	444,417
13	505,081	42,578	547,659	416,625
14	482,317	40,659	522,976	388,834
15	459,553	38,740	498,293	361,042
16	436,789	36,821	473,610	333,250
17	414,025	34,902	448,927	305,459
18	391,261	32,983	424,244	277,667
19	368,497	31,064	399,561	249,876
20	345,733	29,145	374,878	222,084
21	322,969	27,226	350,195	194,293
22	300,205	25,307	325,512	166,501
23	277,441	23,388	300,829	138,709
24	254,677	21,469	276,146	110,918
25	231,913	19,550	251,463	83,126
26	209,149	17,631	226,780	55,335
27	186,385	15,712	202,097	27,543
28	163,621	13,793	177,414	
29	140,857	11,874	152,731	
30	118,093	9,955	128,048	
31	95,329	8,036	103,365	

\* Participation on surpluses: this information is given as examples and are calculated on the basis of the present rates of participation; therefore, they cannot be guaranteed for the coming years.

As the table above shows, Swiss annuities represent ideal long-term investments that use the power of compound growth.

## Asset protection

A significant advantage of Swiss annuities and life insurance is the strong protection of investments placed into any insurance contract of this kind.

A trustee may purchase a life insurance policy from a Swiss insurance company for a trust and designate natural persons – for example beneficiaries of a trust – or legal entities as beneficiaries of the policy. This can be done on a revocable or irrevocable basis. Swiss law then protects the insurance policy against any debt-collection procedures initiated by the policyholder's (ie, the trust's) creditors and excludes it from any Swiss bankruptcy procedures. Even if a foreign judgment or court order expressly decrees the seizure of the policy or its inclusion in the estate in bankruptcy, the policy may not be seized in Switzerland or included in the estate of the bankrupt party.

Creditors may seize the policy or have it included in the estate of the bankrupt party only if its purchase or the designation of the beneficiaries is regarded as a fraudulent conveyance under Swiss law. This is the case if the policyholder has designated the beneficiaries less than one year before the initiation of debt-collection proceedings ultimately leading to a bankruptcy decree against the policyholder or to the seizure of the latter's assets. The same applies if the beneficiary has been designated with the clear intent to damage creditors or to give some creditors preferential treatment and the designation was made within five years of the date of debt-collection proceedings resulting in a bankruptcy decree or the seizure of the policyholder's assets.

## Tax advantages

Swiss annuities and life insurance are investment vehicles that offer tax advantages, in many cases allowing significant relief from income, capital gains and inheritance tax. The capital accumulated in life insurance policies is not taxed in several countries when the policy expires, or then only at a very low rate. For trusts that operate in a tax-neutral environment, Swiss annuities and life insurance are generally tax neutral as well.

Under Swiss law, both variable and fixed annuities are treated as private life insurance policies and are consequently exempt from Swiss income and asset taxes, unless the policyholder is a Swiss tax resident. Swiss life insurance and annuities are also exempt from the 35% federal withholding tax.

The assets paid into a life insurance policy do not constitute a gift as they are treated as a premium payment. Income and capital gains on assets placed in a life insurance policy are generally tax-free in the hands of the Swiss life insurance company. No tax is deducted from the policy proceeds ie, the proceeds are paid net to the policyholder (or beneficiary, as the case may be).

## Conclusion

The Swiss insurance industry has an impeccable track record and offers highly sophisticated products and services that are attractive not only to Swiss clients but – perhaps even more so – to international investors and in particular for trustees seeking to invest trust assets and looking for very safe and stable investments.

Additionally, asset protection may be a consideration, and all transactions can be done in a completely tax free environment. All of these advantages are available in the environment of legal and economic stability offered by Switzerland, an environment that is second to none in the world. Accordingly, Swiss annuities and life insurance are truly unique.

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## RBC to acquire Abacus Financial Services Group Limited

Royal Bank of Canada and the shareholders of Abacus Financial Services Group Limited (Abacus) announced on 30th November 2005 that Royal Bank of Canada (RBC) has acquired Abacus. The terms of the transaction have not been disclosed.

The transaction has been approved by Abacus shareholders and all relevant regulators. Both sides have begun working toward seamlessly integrating the operations of the companies with an immediate focus on creating value for both clients and shareholders.

“Abacus’ talent, expertise and reputation for client service makes this an excellent fit on strategic, cultural and economic factors,” said Michael Lagopoulos, President and CEO, Global Private Banking, RBC. The acquisition is expected to be virtually neutral to RBC earnings in 2006, and slightly accretive in 2007.

Abacus has offices in six locations: London, Jersey, Guernsey, Edinburgh, Cheltenham and Amsterdam. RBC is one of North America’s leading diversified financial service companies. Around the world, RBC’s Global Private Banking business has a total of 30 offices in 21 countries, with almost 2,000 employees serving the wealth management needs of international high net worth individuals and select institutional clients. As a result of this transaction, assets under administration of RBC’s Global Private Banking business has increased by US\$41 billion. The deal provides RBC’s Global Private Banking business with a greater presence in the British Isles with a total of more than 1,200 employees.

Paul Patterson, head of Global Private Banking for RBC in the British Isles, will oversee the integration of the combined group. Huw Bolle-Jones, the Group Chief Executive of Abacus, will take

responsibility for the merged British Isles trust and fiduciary services of the combined private client businesses.

RBC has had operations in the British Isles since 1910.

The Abacus Financial Services Group was established in 1967, originally as part of the Channel Islands’ firm of Coopers & Lybrand. Abacus became an independent member of Coopers & Lybrand International in 1994, after a management buy-out by the fiduciary and wealth management services partners. The firm became wholly independent in 1998 following the merger between Coopers & Lybrand and Price Waterhouse. The group employs around 400 people and has more than £23 billion under management.

## New London base for Abacus Trust Company Limited, Isle of Man

Abacus businesses in the Isle of Man and the Channel Islands have always been entirely separate from one another in terms of ownership and clients.

As such, Abacus Trust Company Limited in the Isle of Man remains as an independent company. A new London office has recently opened at 25 Moorgate, and plans are underway to have a full-time manager in place in the early part of 2006.

Commenting on the move, Business Development Manager, Mike Batey, added:

“London is a key hub for international business people and families and we want to ensure that we have someone available to meet with them at short notice if they are passing through and need to see us.”