

echo interview, November 2021

## The diversification of our pension system brings advantages

ELIPSLIFE ECHO - INTERVIEWS WITH PROMINENT BUSINESS LEADERS

### echo interview with Bernard Perritaz, Member of the Executive Committee Kessler & Co Inc. (Head of Western Switzerland)

**elipsLife echo:** Digitalisation is turning a lot of things upside down in the insurance industry right now. As one of the leading brokerage companies in insurance and pension benefits consulting, how is Kessler approaching this topic?

**Bernard Perritaz:** Kessler views digitalisation first and foremost as an opportunity, so the topic has high priority. As advisors and intermediaries between insurers and policy holders, anything that helps to accelerate, improve and simplify processes and data quality helps us. Accordingly, we've invested a lot in digitalisation, both at company and industry level. Digitalisation affects the insurance industry in general, but also pension funds: Today, insured persons and employers want to communicate digitally - we simply have to be ready.

#### **What are the priorities in this regard?**

At the industry level, it's mainly about getting a common technical infrastructure up and running, comparable to the banks' 'SIX' system. Unfortunately, the insurance industry in Switzerland is lagging behind in terms of digitalisation. Compared to a country like Belgium, which is strongly export-oriented like Switzerland, we're 20 years behind. The reason is simple: For far too long, the Swiss market has been focusing on its own distribution system, largely in

the hands of general insurance agencies and therefore heavily protected. So, there was no competition and little need to increase efficiency. We want to change that, for example with EcoHub [Editor's note: an online platform for the insurance, pension and broker industry] and companies like Sobrado.

**Apart from digitalisation, what are the biggest challenges the broker market is facing?**

We've been in a hard market for about two years now. And Covid has made the situation even more difficult. Today, we have to fight on all fronts to achieve good conditions for our customers. In addition, there's strong competition within the broker market itself. At the moment we're experiencing a wave of concentration with major merger and acquisition transactions going on. Kessler is very cautious in this respect. We're focusing on organic growth. We're not out to buy our customers or our employees, but rather to convince them through performance. The third major challenge is the lack of skilled personnel, like many other industries.

**Even if Corona is overshadowing everything at the moment, old-age provisioning remains the biggest concern for the Swiss. Politicians have been struggling with the issue for years, the latest milestone being the decision by the Council of States to raise the retirement age for women to 65 as part of the AHV reform. What's your position on this?**

For me, equalising the retirement age is a matter of course. It's right and necessary. Of course, the equality and compensation issues also have to be solved, but there's no reason today to have different retirement ages for men and women. I'm convinced that the Swiss people are ready for this step.



**In your view, what has to happen for the AHV reform to pass at the ballot box?**

There's a political and a technical aspect. From a political perspective, it needs the support of three of the four governmental parties. From a technical perspective, the reform mustn't lead to a reduction in benefits. So, the increase in the pension age for women has to be properly compensated for.

**The Federal Council wants to restructure the second pillar through a lower conversion rate and offsetting pension shortfalls via contributions from wages. Many reject the redistribution in the 2nd pillar as being alien to the system. Has the Federal Council's pension reform proposal any chance of success?**

No, the proposal is neither properly supported nor adequately understood. However, I would like to point out in this connection that the second pillar does have solidarity and redistribution elements. The risk premiums or longevity have always contained a certain redistribution element. Moreover, historically the second pillar has always contained special measures very much based on the idea of solidarity. Today, however, society is much more individualised, and this the problem. General purpose solutions no longer stand a chance. A general redistribution to all policy holders would be problematic because only about 15% of the insured, i.e. those with the lowest incomes, would really be affected by a reduction in the conversion rate.

**How high should the conversion rate for the compulsory part be today in your view?**

I'm going to be a bit provocative here. Since the conversion rate for the mandatory part is only

relevant for 15% of insured persons, it can be left unchanged at 6.8%. Why do I say this? Because practically all the low-wage industries are those with a comparatively low life expectancy. There are years between the life expectancy of a professor or banker and that of a construction worker. Moreover, the risk premiums of the pension funds in many low-wage industries are higher than those in office jobs. So why not guarantee a higher minimum for the poorer segment of the population? From a purely technical point of view, the conversion rate today should probably be 5 or 5.5%. But a reduction to this level is not politically justifiable.

### **What specific role can brokers play in occupational benefit provision?**

Brokers are important players in advising SMEs in particular. They accompany firms in solving occupational benefits issues and advise their clients both at the employee level and at the level of pension commission and management. Today, all brokers must be registered with FINMA. However, the training requirement is insufficient to properly address clients' needs in dealing with complex pension issues. For this reason the broker associations SIBA and ACA, together with the IAF 1), have launched a new course in pension fund consulting. This November, the first 100 graduates will complete this course.

### **The pension funds are severely restricted in their investment strategies by the regulator. In view of the difficult economic environment, do the funds need more freedom?**

No, in my view the possibilities that exist today are sufficient. The pension funds rarely use the full framework provided by law, so additional freedoms are of no use.



**The number of company-owned pension funds is constantly decreasing, the trend is towards collective foundations. Will this development continue?**

Yes, quite clearly. Soon there will be fewer than 1000 pension funds in Switzerland. This trend allows for more professionalism and gives us brokers the opportunity to offer qualified advisory services. But it also places a great responsibility for the insured on us.

**Should pension recipients participate in the restructuring of the pension system - or are pension entitlements once acquired taboo?**

People trust and rely on the second pillar. Its reputation is consequently unquestioned. Pension entitlements should therefore not be tampered with. The credibility of the second pillar depends on having guaranteed pensions.

**Does the 3rd pillar need more state encouragement to relieve pressure on the first and second pillars?**

That wouldn't be a bad thing, especially for the middle class. I can well imagine an increase in the tax deduction cap as well as the possibility of making retrospective annual purchases. However, low-income groups wouldn't benefit from such measures, so the effect on the overall system would be limited.

**Despite the reform backlog, Switzerland's old-age pension system with its 3 pillars is regarded internationally as a model. What do we do better than France or Germany, for example?**

Diversification, that is not putting all our eggs in one basket, gives us advantages. Our system is decentralised, flexible and responsibilities are broad-based. Compared to Germany or France, our pension system is much better capitalised. While our neighbours rely on the pay-as-you-go system, we also use individual and collective capitalisation. On the other hand, the Swiss system is more complicated and the idea of solidarity is less pronounced than in Germany or France.

1) [www.iaf.ch/bildungsabschluesse/dipl-beraterin-berufliche-vorsorge-iaf/](http://www.iaf.ch/bildungsabschluesse/dipl-beraterin-berufliche-vorsorge-iaf/) (Academic qualification as a consultant for occupational pensions)



## PERSONAL PROFILE

### **Bernard Perritaz**

Member of the Executive Committee Kessler & Co Inc. (Head of Western Switzerland)

Born in 1969, Bernard Perritaz has been a member of the Executive Committee of Kessler & Co Inc. since 2009. His responsibility covers business activities in Western Switzerland and for Kessler Benefits Inc. Kessler is one of the leading Swiss companies for comprehensive risk, insurance and pension benefits consulting and has been a partner of the global Marsh network since 1998. Bernard Perritaz joined Kessler in 2003, at that time as head of the pension benefits department. Prior to that, he held various positions at Baloise Insurance. Bernard Perritaz is married, has two children and lives in Ecuwillens in the canton of Fribourg. As a member of various associations and organisations, he is involved in a wide range of activities related to