

Revising pension supervision

Roger Tischhauser is responsible for 40% of the assets in the Swiss second pillar and is an agent for reform in the pensions debate. He tells Barbara Ottawa about his critical stance on the industry's response to the low-interest-rate environment

Interview

When it comes to naming influential people in the Swiss second pillar, Roger Tischhauser would be one of the first names mentioned. As director of Zurich's supervisory body, the BVS, he looks after 930 Pensionskassen and 66 multi-employer funds (Sammelstiftungen) with a combined balance sheet of CHF300bn (€245bn). This totals almost 40% of the assets in Swiss second-pillar funds.

Tischhauser is also an outspoken supervisor, who frequently voices his ideas on the future of the Swiss pension system – not least at the annual “information days” the BVS holds. “The tone in which problems in the pension system are debated is very important,” he says.

He is convinced “the situation is serious but not hopeless” when it comes to Pensionskassen being stuck between low interest rates and mismatching technical parameters (see Technical difficulties). “Swiss pension providers are stepping up to their responsibilities and making difficult decisions,” he says. “Over the past years, they also made good use of positive market yields to restore their buffers.”

One imperative for him is to stop redistribution. One of the problems in the system is the high level of conversion rates, leading to funds from active members being diverted to retirees. “But pension funds are now lowering these technical parameters considerably, which we fully support, keeping in mind that this will lead to lower pension payouts in the future.”

He also calls on the Federal supervisory body, the Oberaufsichtskommission (OAK) to come up with a “more precise statement on how to evaluate retirees' assets”. Tischhauser confirms that this is one of the main issues supervisors have to tackle. “Especially with the emergence of Rent-

nerkassen, that is, pension funds with no active members, the correct evaluation of liabilities and assets is very important.”

Risk-based approach

At the BVS, Tischhauser has introduced a risk-based approach to supervision. A risk tool was created which includes more benchmarks than simply the funding level of a Pensionskasse. These parameters include the ratio of active to retired members and the ability to introduce recovery measures or possible funding guarantees.

Providers having problems in one or more of these categories are then invited to a ‘risk-dialogue’. “We are in dialogue with around 5% to 10% of the Pensionskassen under our supervision,” Tischhauser says. “The number has decreased over the last years in line with appreciations on the capital markets but I expect it to grow again as the low-interest-rate environment continues.”

Overall, Tischhauser is pleased with the new approach. And this model might also serve as a blueprint for current considerations by the OAK

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to introduce risk benchmarks to be reported by Pensionskassen. The co-operation between the cantonal supervisory bodies as well as the federal supervisors is “vivid and constructive”, he says. The OAK meets with the association of regional supervisors quarterly and has also established specialised working groups – for example, on the subject of risk-based supervision, minimum standards for guideline benchmark figures or to address the *Sammelstiftungen*. The latter operate differently from company pension plans because they are in competition with other providers which can lead to the application of overly optimistic discount rates, and so on.

Altersvorsorge 2020

As Pensionskassen and supervisory authorities “are taking all necessary steps” to ensure the sustainability in the second pillar, Tischhauser stresses these need to be backed by the legal framework. “The pension funds are prepared to make difficult decisions and we, as supervisory bodies, support them in this,” he says.

He hopes for the right path to be set in autumn, as discussions on *Altersvorsorge 2020* (AV2020) continue at a parliamentary level: “Politicians have to stand behind difficult decisions like the cut in the minimum conversion rate.” This is particularly the case because, as Tischhauser points out, the reality is far from the proposed 6% rate with some pension funds having already gone well under 5%.

According to Tischhauser, the structural reform in the second pillar implemented from 2012 onwards has “strengthened people’s trust in the system”. In Switzerland, this trust is of importance as some decisions have to be put to a



Roger Tischhauser

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☉ 2008: joined Life Insurance Switzerland, a subsidiary of Zurich Financial Services.

☉ Studied law at the University of Zurich.

referendum. In 2010, this led to an overwhelming “no” on reforms to the second pillar – including a cut in the minimum conversion rate.

“But, with the structural reform the cor-

porate governance was modernised and these regulations are continuously being refined,” he explains. Tischhauser confirms that in Zurich there are “very few cases in which the supervisor has to step in”. Sometimes the division of responsibilities in some pension companies “still needs to be more clearly defined”.

As for transparency, Tischhauser stresses that “a lot has happened over the last years both in reporting as well as in cost transparency”.

Governance and transparency has also increased among public pension funds, which have been transformed into autonomous entities. For Tischhauser, this was “an important step which is now completed”. In Zurich, all public pension funds have chosen to work towards a full funding level. In other regions some retained a financing guarantee from the local authority, earning them the right to remain underfunded in the long term.

But in Zurich the financial situation of public pension funds has improved immensely, says Tischhauser. “Only a single-digit share of public funds was still underfunded in 2014.

“Overall, the steps taken as part of the structural reform and continued adjustments to parameters and regulations are helping to improve people’s trust in the system and make them understand tougher measures better in case they become necessary.”

The strength of this trust might be tested next year when parts of the AV2020 reform package will have to pass a referendum. It has not been decided which aspects will be put to a vote at the same time as the recommendation of an increase in value added tax (VAT). The change in the VAT level requires a constitutional amendment.