



Death by a Thousand Cuts Insurance in a Low Interest Environment

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Current situation

Over the past decades, interest rates have decreased to historic lows (see figure 1). Despite the recent increase of the federal funds rate in the US, insurance companies and regulators will likely have to deal with low interest rates for years to come. According to the latest CFO Survey¹ conducted by Deloitte in Switzerland, the majority of Swiss CFOs still do not expect Swiss interest rates to rise until 2018 at the earliest (see figure 2).

Figure 1. How interest rates have developed over the past decades (overnight rates from central banks are displayed)

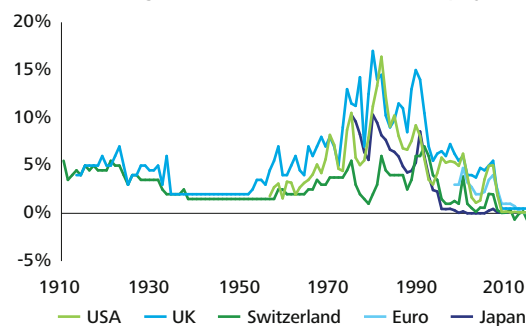
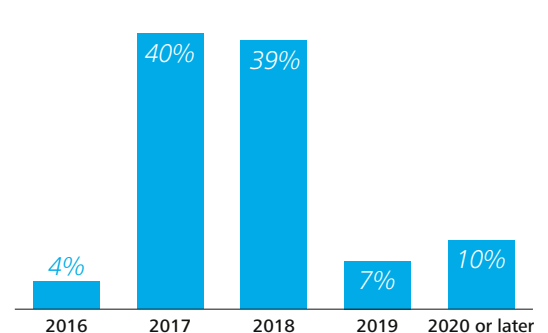
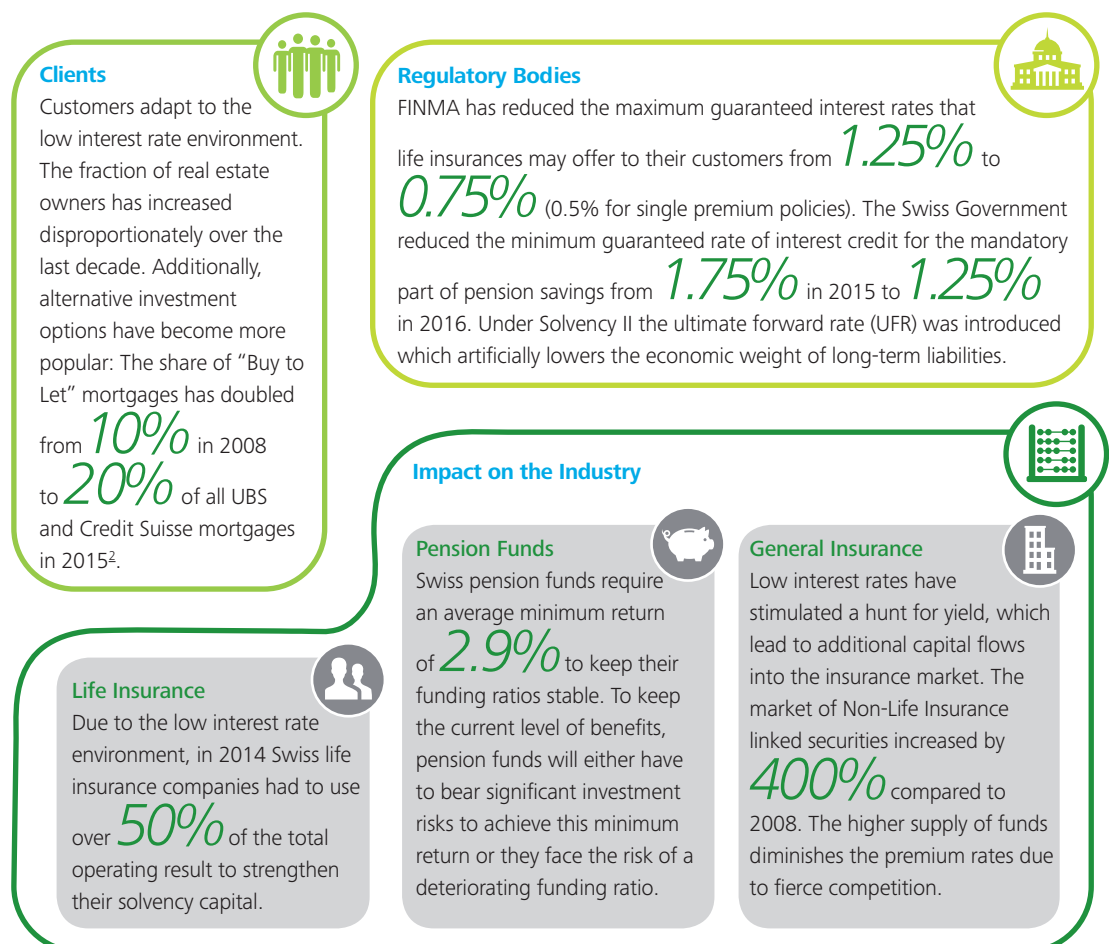


Figure 2. When Swiss CFOs expect the base rate of Swiss interest rates to rise

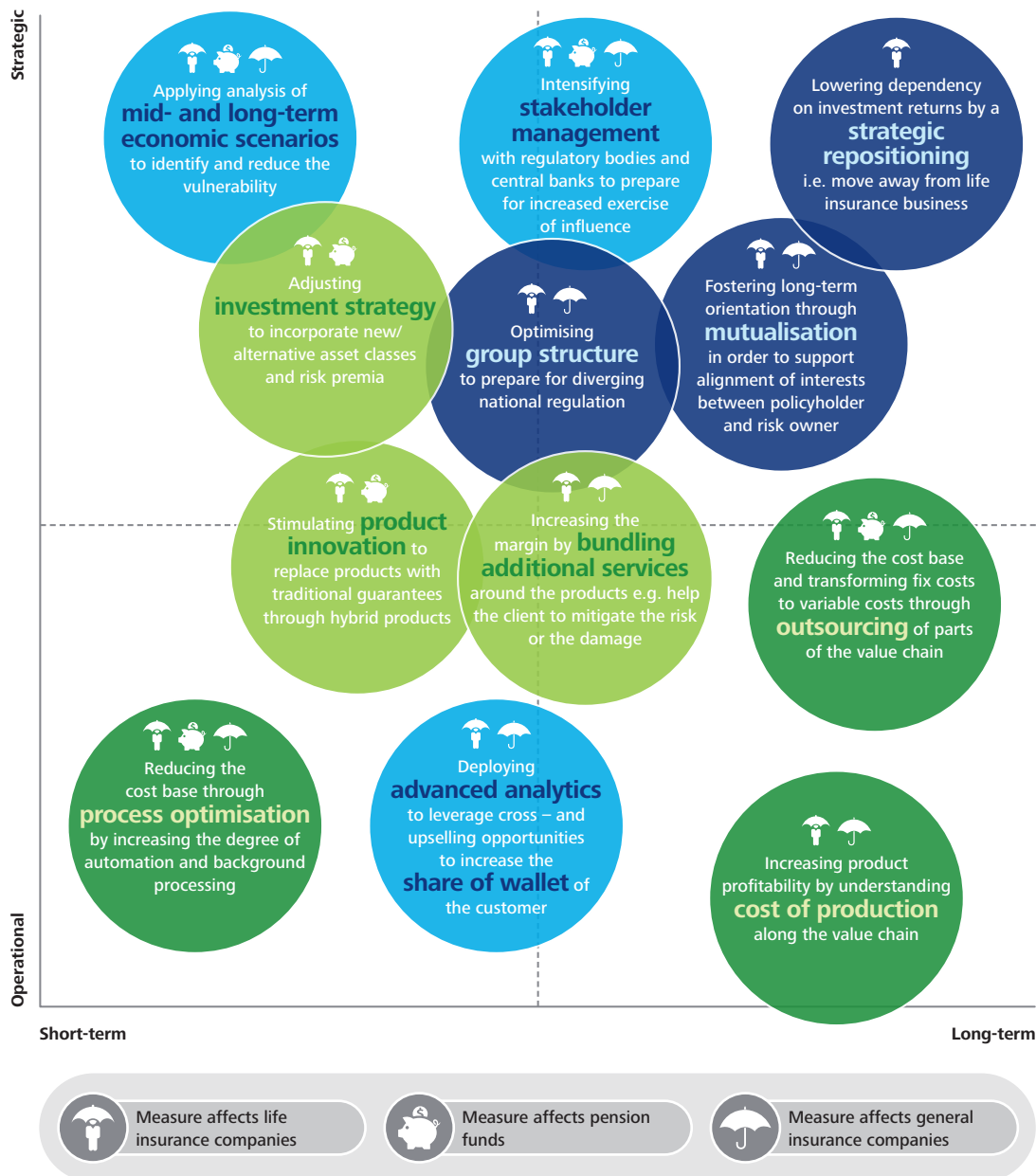


This situation of continued ultra-low interest rates significantly impacts clients, insurance companies and regulatory bodies.



Strategies for insurance companies

Different strategies can be applied to cope with the low interest rate environment. A selection of specific measures is presented below. We differentiate measures on the strategic vs operational level (vertical axis) and measures with short-term vs long-term effect (horizontal axis). A thorough analysis of the strategic positioning and the operating model can reveal the vulnerability and opportunities of a company and form the basis to identify the right mixture of strategies.



Insurance companies in Switzerland will have to prepare for a continuation of ultra-low interest rates and increased activity of regulatory bodies. A special focus should lie on the **alignment of products with capital market instruments**, the adjustment of the **investment strategy**, and a **review of the group structure** with intra-group liquidity management.

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2. Immobilienmarkt 2015 – Strukturen und Perspektiven. Credit Suisse Economic Research, March 2015 and www.ubs.com

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