

CHAPTER 1

Why Switzerland?

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Switzerland is a federal republic rooted in a long tradition. It is arguably the only country in the world where people with different languages, religions, and cultures have formed one nation that has successfully evolved over centuries and become one of the world's most stable and secure democracies. Indeed, regardless of the various myths about Swiss history, and despite the fact that it has—like every other country—also known some darker chapters in the past, Switzerland is a success story. Its success was made possible by accidents of history, political foresight and necessities in the past, and luck, as well as the hard work and diligence of many generations.

Switzerland is a modern country with a strong identity, made up of more than two dozen different cantons, each having its own traditions and peculiarities. It is a country that has been held together for centuries, and still is, by common objectives and ideals rather than by a common language, culture, or religion. Its cantons are considered to be sovereign, that is, autonomous, politically independent entities within the framework of a federal constitution. Each of the Swiss communes (municipalities) also enjoys broad autonomy. Although many things now are treated more uniformly throughout the country—including the laws and regulations concerning the annuity and life insurance sector—in many important areas, regulations differ between the cantons and even between communes.

Switzerland has attracted foreign investors for decades. It is certainly one of the most attractive countries in the world in which to invest and do business. The country has outstanding political, social, and economic stability. This, combined with an excellent communications and transport infrastructure, efficient public services, comparatively low taxation, as well as a

beautiful, clean, and safe environment, make it the ultimate choice for investment and business.

The financial services sector and particularly private banking and insurance have built a unique international reputation that attracts clients from all over the world. World-class banks and insurance companies, well-functioning capital and stock markets, and highly sophisticated financial services play a central role in Switzerland's economic prosperity. Investors who choose to invest with Swiss insurance companies benefit from this financial expertise.

Overall, Switzerland has probably the soundest finances of all the countries in the world; accordingly, it enjoys the highest ranking in creditworthiness, as shown in Figure 1.1.

AN OPEN, MULTILINGUAL SOCIETY

Switzerland has four national languages: German, French, Italian, and Romansh. Romansh was made an official national language only a few years ago, testifying to Switzerland's clear and continuing commitment to a multicultural and multilingual society.

Most Swiss speak at least one foreign language. Pupils start learning languages in elementary school, where English is increasingly being introduced into the curriculum. Today, from the secondary school level on, English is the most favored second language throughout Switzerland.

In businesses with international scopes of operations (and there are many in this country), English is the universal language of communication along with the various national languages. This is particularly so in Zurich, Switzerland's economic and financial capital, but also in Geneva and other cities. In fact, English is so widely spoken in the country that it is sometimes called the fifth national language, or the lingua franca of modern Switzerland.

Thanks to the country's openness, which—contrary to popular belief—includes its attitude toward immigrants, an enormous diversity of languages is actually spoken there.

Switzerland is home to a large number of international organizations. Most of the United Nations organizations, such as the United Nations Educational, Scientific and Cultural Organization, the International Labour Organization, and the World Health Organization are located in Geneva. The World Trade Organization, the International Red Cross, the World Intellectual Property Organization, the Universal Postal Union, and many others are also located in Switzerland.

Composite Rating of Three Rating Agencies and Two Publications

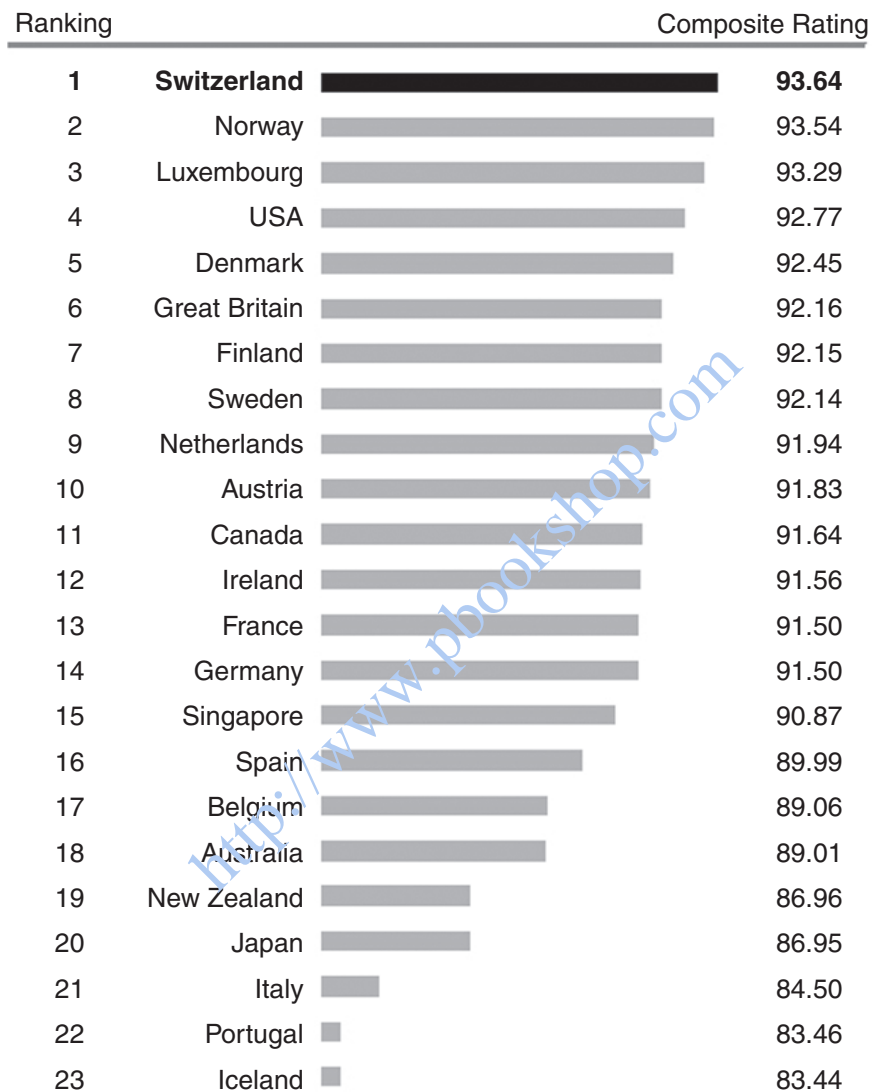


FIGURE 1.1 Creditworthiness of Nations

The widespread language skills and multicultural environment are important for both investors and businesses based here, enabling the banking and insurance sector to serve a very international clientele.

HIGHLY QUALIFIED, RELIABLE, AND MOTIVATED PEOPLE

When you invest or do business in Switzerland, you will notice immediately that you are mostly dealing with highly qualified, reliable, and motivated people.

Besides the language diversity, Switzerland is well known for its strong work ethic and the high productivity of its workforce. Indeed, it has one of the world's highest productivity levels per worker. Individualized agreements between employers and employees have forged peaceful labor relations that have held for more than 60 years. There are virtually no strikes, and the unemployment rate is extremely low by international standards.

Managers here are not only multilingual, they also have more extensive international business experience than in any other country. A multicultural approach and the foreign language capabilities of a large proportion of the population mean that the Swiss labor pool is highly skilled and thus productive.

In the financial services sector, including and in particular in insurance, Switzerland's skill pool is very large. The breadth and depth of expertise and experience of employees in Swiss insurance companies, brokers, and advisors—at any level, from office clerks to the top management—is such that customers can not just expect but actually receive competent service that is second to none in the world.

Switzerland also has an excellent education system and scores highly in international comparisons of education and research and development. The high concentration of reputable schools, universities, and research institutions, set in a multicultural environment, attracts bright students and researchers from all over the world.

Regardless of which survey or research results you consider, Switzerland ranks among the top in overall quality of life on an international scale. For years the survey from Mercer Human Resources Consulting¹, probably the most comprehensive report on the subject, has ranked Swiss cities at the very top in the world for quality of life. Clearly this quality of life factor contributes significantly and translates directly to the quality of work, services, and excellent products for which Switzerland is famous. The legendary Swiss quality is strongly linked with the excellent physical environment that Switzerland offers and that makes the country one of the best places in the world to live, as shown in Figure 1.2.

Index New York = 100 (2004)

Ranking		Mercer 2004
1	Zurich	106.5
1	Geneva	106.5
3	Vienna	106.0
5	Copenhagen	105.0
5	Frankfurt	105.0
10	Munich	104.5
10	Amsterdam	104.5
12	Brussels	104.0
15	Stockholm	103.5
23	Dublin	102.5
24	Hamburg	102.0
31	Paris	101.5
35	Lyon	100.5
35	London	100.5
38	Madrid	100.0
38	New York	100.0
39	Boston	99.5
44	Barcelona	98.5
49	Milan	98.0

FIGURE 1.2 Quality of Life

STABLE ECONOMY AND RELIABLE LEGAL SYSTEM

Switzerland has a long tradition of liberal trade and investment policies. The Swiss legal system is strong and sophisticated, investment and business law is highly developed and well defined, and solid laws, regulations,

and policies protect investment. The Fraser Institute² ranks Switzerland third internationally in terms of economic freedom, and according to the Heritage Foundation³, Switzerland ranks among the world's most liberal countries. An independent monetary policy, the strong protection of property rights and individual freedoms, and the sophistication and quality of the financial sector are viewed as particular strengths of the Swiss economy.

More than two-thirds of the Swiss population is employed in the services sector, which generates about 70 percent of the country's gross domestic product (GDP), a rate comparable to that of other highly developed countries. The distinctive feature of the Swiss services sector, however, is the unique position of financial services, which is a major pillar of the Swiss economy. Banks alone contribute more than 11 percent of the GDP, and the insurance sector contributes about 3 percent of the GDP of the entire country. The share of total value added by the financial services sector in Switzerland is about twice as high as in the United States or in Germany.

Nearly a third of the world's offshore wealth is managed from Switzerland, which therefore clearly ranks number one worldwide in this area. Over a very long period of time, foreign investors who have placed their assets in Switzerland have never been affected by war, economic crises, or unstable governments. Switzerland is the ultimate "safe haven" with a uniquely stable and predictable investment environment, thanks in part to a strong, reliable legal system, which provides real protection of privacy and strict regulation against abuses.

For many, Switzerland's respect for personal and financial privacy is one of the important pillars on which the financial services rest. The value of personal privacy and the protection of the private sphere are deeply rooted in the Swiss tradition and are reflected in the legal system. It is therefore no surprise that Switzerland ranks at the top worldwide with regard to the protection of the private sphere. (See Figure 1.3.) More than elsewhere, in this country both the government and the people are aware of the importance of privacy not only in client relationships in the financial services sector but throughout life, especially regarding strict control and regulation of information collected and held by government authorities.

The country's own stable currency, the Swiss franc (CHF), is another reason why Switzerland stands out internationally. Viewed over the long term, the Swiss franc is arguably the world's strongest currency. It is overseen by a truly independent national bank that carefully controls the money supply and other monetary indicators. Switzerland has never imposed exchange controls on the outflow of funds.

Enforcement of the Protection of the Private Sphere (on a scale from 0–10; 2004)

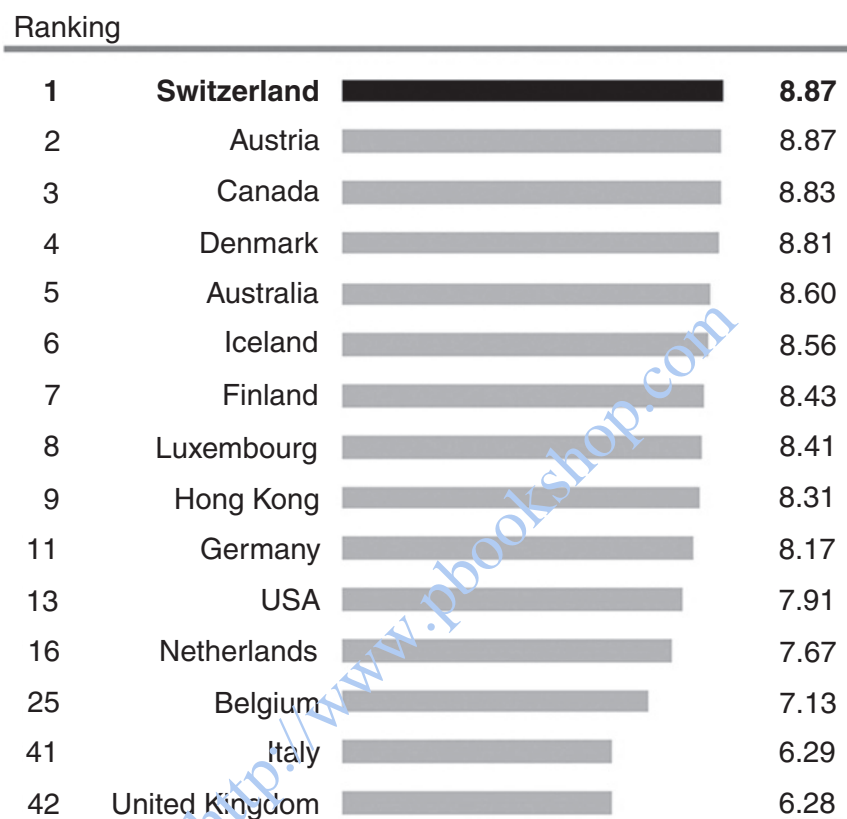


FIGURE 1.3 Protection of the Private Sphere

A STRONG INSURANCE SECTOR

As readers will learn in this book, the Swiss insurance sector is unique in many ways. Although it is not the oldest, it has a long tradition and it is fair to say that it is certainly the safest in the world. Not one insurance company has ever gone bankrupt or failed to meet its obligations, and strict supervision of the insurance business ensures this track record will remain. Switzerland is one of the most important insurance centers in the world, if not the most important center, and the insurance industry is an important part of the Swiss

economy. The sector benefits from a very sophisticated legal and regulatory framework that is geared toward protecting the interests of insured clients and beneficiaries. Holders of policies issued by Swiss insurance companies enjoy a degree of security and protection that is maintained more strictly than in any other country. The sector also benefits from certain tax advantages but perhaps above all from the wealth of experience and know-how nurtured in this sector over generations.

The Swiss themselves are known to be very 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 Figure 1.4 illustrates.

Switzerland also has one of the most highly developed occupational pension systems in the world. As Swiss pension funds are obliged to fully fund their liabilities, by 2004 they had accumulated assets of about CHF 500 billion.

TAX ADVANTAGES

The country's tax system strongly reflects the Swiss federal structure. Fiscal sovereignty is an entitlement of the federal government as well as of the cantons and their communes. Each canton has its own tax laws with its own tax rates, different tax allowances, and the like. The relative independence of the cantons in the sphere of taxation ensures healthy competition, making the tax burden moderate for both individuals and companies when compared with countries worldwide. The tax burden may vary greatly between individual cantons and even between communes.

For foreign investors in Swiss insurance, taxation is generally minimal or nonexistent; investments can be made, can grow, and can be taken out of Switzerland largely free of tax.

Interest and dividends that accrue in Swiss insurance policies are also exempt from withholding tax. This tax, which otherwise generally applies at a rather high rate of 35 percent, makes investments through Swiss insurance significantly more attractive than comparative investments in Swiss bank deposits or Swiss government bonds.

Swiss insurance companies do not have to give any information about their policy holders to the Swiss tax authorities. In fact, revealing any information related to clients of Swiss insurance companies and Swiss banks is strictly protected by law. Information can be given only in strictly defined circumstances, mainly in case of criminal offenses, money laundering, terrorism financing, and the like. If a foreign government or tax authority requests information, the rules are even stricter; the foreign authority must

Amount Spent on Insurance Premiums per Capita and Country
(without social security; in US\$; 2004)

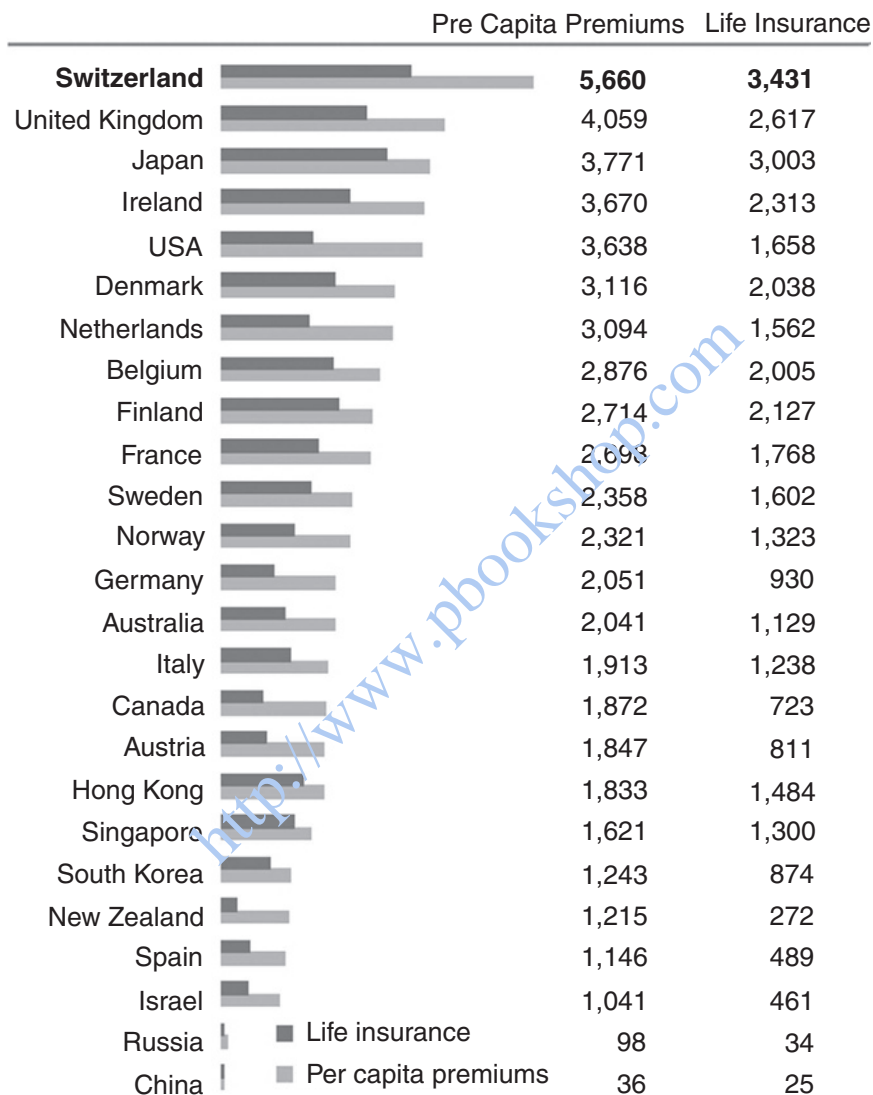


FIGURE 1.4 International Insurance Ratios

essentially go through the Swiss legal system, which safeguards the rights of all parties involved.

Reporting on assets held at Swiss financial institutions, including insurance companies, is the sole obligation of the investor. More in the past than today, this fact has led to certain abuses. Often foreign investors would deposit their assets in Switzerland and not report this information in their home country, where they have their tax residence and possibly should make appropriate declarations. Switzerland's position has never been to encourage the evasion of taxes in foreign countries; however, it also does not want to be involved in the collection of taxes for foreign governments and, as mentioned earlier, has a strong tradition of protecting individuals' rights to financial privacy.

Switzerland does offer many genuine tax advantages for foreign investors, and more so today than ever before. Certain insurance products available in Switzerland and Liechtenstein now offer very attractive tax advantages that are legal, sound, and compliant with tax systems in investors' home countries. Accordingly, specific insurance products offer tax deferral or other tax advantages for citizens worldwide.

COMPETENT AND FRIENDLY GOVERNMENT AUTHORITIES

In Switzerland, the government administration works efficiently on all levels. Whether a request is made at the local communal office, questions arise about a tax return, or an inquiry is sent to a department of the federal government in Berne, the Swiss public administration is well organized, efficient, and run by friendly and helpful civil servants. It has been said that the Swiss public administration is both the friendliest and the most competent in the world. This is certainly very pleasant for everyone living in the country, but it is a crucial advantage for investors and businesses: Administrative matters are efficiently and speedily expedited; key government officials, such as tax commissioners, are easily and directly accessible; and issues of any kind are normally resolved in a constructive atmosphere. Indeed, very few nations can match the positive impact the Swiss public administration has on the country's business and investment environment.