IMF Country Report No. 25/299

SWITZERLAND

November 2025

FINANCIAL SECTOR ASSESSMENT PROGRAM

TECHNICAL NOTE ON INSURANCE REGULATION AND SUPERVISION

This paper on Switzerland was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on October 24, 2025.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SWITZERLAND

FINANCIAL SECTOR ASSESSMENT PROGRAM

October 24, 2025

TECHNICAL NOTE

INSURANCE REGULATION AND SUPERVISION

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Switzerland led by Oana Croitoru and overseen by the Monetary and Capital Markets Department. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

CONTENT

Glossary

ALM	Asset Liability Management
CESSI	Concept for the Identification of Emerging, Sector-Wide and Systemic Risks in the Insurance sector
CMG	Crisis Management Group
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
EU	European Union
FINMA	Swiss Financial Market Supervisory Authority
FOPH	Federal Office of Public Health
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles
G-SIIs	Global Systemically Important Insurers
ISA	Insurance Supervision Act
ISO	Insurance Supervision Ordinance
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
ICS	Insurance Capital Standard of the IAIS
ICPs	Insurance Core Principles
IFRS	International Financial Reporting Standards
IT	Information Technology
MCR	Minimum Capital Requirement
MoF	Federal Ministry of Finance
ORSA	Own Risk and Solvency Assessment
P&C	Property and Casualty
SCR	Solvency Capital Requirement
SST	Swiss Solvency Test
TN	Technical Note

EXECUTIVE SUMMARY

Switzerland has a large and sophisticated insurance market, which demonstrated resilience over time. The insurance industry, with overall premiums accounting for 60 percent of the Swiss GDP, has adapted to a long period of low interest rates and managed the impact of the COVID 19 pandemic. The sector has generally been profitable and has maintained a solvency position well above the minimum requirement. Industry concentration as well as strong international presence remain prominent features. Five Swiss insurers have been identified as Internationally Active Insurance Groups (IAIGs)[1] and many others have sizable international presence.

The technical note (TN) covers private insurers supervised by the Swiss Financial Market Supervisory Authority (FINMA). FINMA is the main insurance supervisor in Switzerland although there are other supervisors which supervise entities providing insurance services. Basic healthcare insurers are supervised by the Federal Office of Public Health (FOPH), while cantonal insurers, providing basic property and natural peril coverage, are regulated at the canton level. FINMA is empowered by law to carry out its supervisory activity, although the Federal Council is approving its strategic objectives. The note focuses on specific areas within FINMA's jurisdiction. It also comments on progress with respect to recommendations made in previous FSAPs.

The insurance sector faces diverse challenges. Major risks to be prioritized for supervision include market risk, interest rate risk, inflation, climate and operational risk (particularly cyber). Many of those factors are also driven by the international activities and presence outside of Switzerland, such as international geopolitical events and changes in the world economy, particularly in recession or stagflation scenarios.

The Swiss regulatory framework for insurers is generally robust, although extensive reliance on external auditors and hurdles to enforcement limit the effectiveness of the supervision. The framework benefits from extensive requirements for corporate governance, risk management, and internal controls, backed by a risk-based and forward-looking supervisory approach accompanied by generally robust intervention powers of the supervisor (drawing from sectoral legislation). FINMA's insurance supervision arm includes experienced and knowledgeable experts. However, limited on-site visits for smaller and lower risk assessed insurers and extensive reliance on external auditors for supervisory audits remain a problem. Furthermore, enforcement actions can be suspended, which create some challenges against timely and effective intervention.

The Swiss solvency supervisory framework has been continuously improved over the last ten years. Recent reforms strengthen the Swiss Solvency Test (SST), supported by the qualitative supervision, such as risk management and internal controls requirements. The SST is a complex risk-based capital adequacy regime which allows to capture the relevant market, credit, and insurance risks. FINMA is also empowered to impose capital add-ons for other risks, such as operational risks.

[1] IAIGs are insurance groups that: write premiums in three or more jurisdictions; have gross premiums written of at least USD $10 billion per annum, or total assets of at least $50 billion; and write at least 10 percent of premiums outside of their home jurisdiction.

Compliance with the capital adequacy regime is reinforced through several standard models, although FINMA allows for partial and full internal models. In addition, when necessary, FINMA can impose insurers to adapt the standard model or use partial internal models to the risks which the application to standard models does not reflect an insurer's risk profile.

There is room to further enhance the effectiveness of insurance supervision, especially by cutting back reliance on external auditors. FINMA should reconsider the extensive reliance on outsourcing of supervisory work to external auditors, which can be paved with conflict of interest and subject to influence of supervised entities. Rather, the outsourcing of supervisory work to external auditors should be limited and FINMA should fully determine the scope and the outcome of the work. This would also help FINMA better retain and leverage institutional knowledge.

FINMA should develop resolution plans and apply resolution planning to identified insurance groups. The amendments to the Insurance Supervision Act (ISA) have legally enabled FINMA to require insurance groups to support FINMA to develop resolution plans. In addition, any resolution plans required for internationally active insurance groups (IAIGs) are to be established by FINMA and carried out in collaboration with the supervisory college and crisis management groups (CMG) infrastructure. However, FINMA has not yet designated which other insurers or insurance groups (except all IAIGs) must have resolution plans in place.

FINMA's enforcement powers should also be improved. If an insurer appeals a supervisory decision, the onus is on the supervisor to show that the regulatory decision should not be suspended pending the outcome of the appeal. FINMA can decide to withdraw the suspensive effect on its decision, at which point the concerned party must justify on what grounds the immediate execution of FINMA's decision would be prejudicial. Nevertheless, this can inhibit the supervisor from taking timely corrective action. Lack of the powers to impose fines and administrative penalties also hinder the effectiveness of FINMA supervision. The existing appeal process for regulatory decisions of FINMA should be reviewed to eliminate the suspensive effect of a measure imposed by FINMA in the event of an appeal, unless a defined high threshold is met, such as clear illegality. FINMA should further be empowered to impose fines and administrative penalties.

Table 1. Switzerland: Key Recommendations: Insurance Regulation and Supervision		
Recommendation	**Priority**	**Timeframe**
FINMA should continue building what has already been put in place for climate risk supervision (¶27).	M (FINMA)	I
Strengthen suitability requirements to ensure that all the heads of control functions are subject to suitability review (¶50).	M (FINMA/FDF)	MT
Increase legal powers to manage significant owners who no longer meet suitability requirements on an ongoing basis. (¶49).	M (FINMA/FDF)	NT
Broaden the responsibility of individual insurers' board members to act in the best interests of policyholders as well as the insured (¶50).	M (FINMA/FDF)	NT
Reconsider the extensive reliance on outsourcing supervisory work to external auditors (¶62).	H (FINMA)	NT
Expand the range of risk-focused on-site visits across all categories of insurers within a reasonable timeframe (¶63).	H (FINMA)	MT
Assess resource needs to meet supervisory obligations (both in terms of number and skill set) (¶64).	H (FINMA)	MT
Complement existing preventative and corrective powers with a system of administrative penalties, including fines (¶70).	H (FINMA/FDF)	NT
Revise the existing appeal process for regulatory decisions to eliminate the automatic suspension of supervisory decisions in the event of legal appeal (¶71).	H (FINMA/FDF)	NT
The regulations and guidance on risk management should be reviewed to ensure that the requirements 16.6. and 16.6b (explicit counterparty risk appetite statement) and 16.7. (macroeconomic conditions as part of underwriting policy) in ICP 16 are met (¶101).	H (FINMA/FDF)	MT
Implement the requirements for insurers and IAIGs to develop liquidity risk management plans considering ICP 16.9 and CF16.9d (¶1023).	H (FINMA)	NT
All IAIGs should have a recovery plan developed and non-IAIGs which are identified by FINMA to be required to have recovery plans should develop recovery plans (¶103).	H (FINMA)	MT
Resolution plans for IAIGs should be developed as soon as practically possible, where deemed necessary by FINMA (¶121).	H (FINMA)	NT
The necessary processes, guidance (internal or published where needed) and tools be developed to complete the comprehensive insurance resolution framework in line with ICP 12 (¶122).	H (FINMA)	NT
2019 FSAP Follow-up		
Increase the frequency of assessments of FINMA's operational effectiveness by the Swiss Federal Audit Office (SFAO).	M (FINMA/SFAO)	NT
Require that basic mandatory health insurance and supplementary health insurance be provided by two separate legal entities (FDF, FINMA). ¶22	M (FINMA/FDF)	NT
Systematically collect relevant information on exposures towards the banking sector, in particular with regard to contingent convertible bonds (FINMA).	M (FINMA)	NT
Continue to provide public information on the objectives, principles and processes of insurance supervision and increase market information available to the public to make insurance supervision more transparent.	M (FINMA)	NT
Note: FINMA is responsible for recommendations except where otherwise indicated in parenthesis. In terms of priorities, H, M, and L stand for high, medium, and low. In terms of time frame, I, NT, and MT stand for immediate (within one year), near-term (within 2–3 years).		

INTRODUCTION AND BACKGROUND

A. Scope and Approach

1. This TN provides an update on the Swiss insurance sector and an analysis of several aspects of the regulatory and supervisory system.[2] The TN has been prepared as part of the 2025 Financial Sector Assessment Program (FSAP) for Switzerland. It has drawn on virtual and on-site discussions in Switzerland from October 28 to November 12, 2024. The analysis is guided by the Insurance Core Principles and the Common Framework for the Supervision of Internationally Active Insurance Groups (ICPs), which were issued by the International Association of Insurance Supervisors (IAIS) in November 2019.[3] These include:

- Suitability, Corporate Governance, and Internal Control;[4]
- Supervisory Review;[5]
- Preventative and Corrective Measures and Enforcement;[6]
- Solvency Supervision;[7]
- Group Supervision and Cross Border cooperation;[8] and
- Exit from the Market and Resolution.[9]

2. The TN has two main sections. The first section provides an extensive description of the market and risks, while the second main section refers to regulation and supervisory oversight. Within the first main section, sub-section A refers to recent developments in the sector, together with potential risks and vulnerabilities; subsection B provides an overview of market structure, insurance products and industry performance; subsection C describes the institutional arrangements for insurance regulation and supervision; subsection D discusses the status of previous FSAP recommendations and subsection E discusses Swiss requirements and practices in relation to six key areas of regulatory and supervisory oversight. The second main section provides an assessment of Insurance Core Principles and the Common Framework for the Supervision of IAIGs.

3. The analysis was informed by a detailed questionnaire and a self-assessment prepared by FINMA and the FDF in respect of the selected ICPs.[10] It also benefited from anonymized examples of actual supervisory practices and supervisory assessments. The areas selected for review

[2] The TN was prepared by Charles Michael Grist, IMF Short-term Expert, with support from Suzette Vogelsang, IMF Senior Financial Sector Expert, Monetary and Capital Markets Department.
[3] The IAIS ICPs apply to all insurers, whether private or government controlled. Specific principles apply to the supervision of intermediaries. The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) was adopted in November 2019.
[4] The analysis was made with reference to ICPs 5,7, and 8.
[5] The analysis was made with reference to ICP 9 and ICP24.
[6] The analysis was made with reference to ICP 10.
[7] The analysis was made with reference to ICPs 14, 15, 16, and 17.
[8] The analysis was made with reference to ICPs 24 and 25.
[9] The analysis was made with reference to ICP 12.
[10] These include ICPs 5, 7, 8, 9, 12, 14, 15, 16, 17, 23, 24, and 25.

were broadly those with macro-financial relevance. However, the TN is not intended to be a detailed assessment of observance of all ICPs.[11] The analysis was based on the laws, regulations and other supervisory requirements and practices in place in November 2024.

4. **The author is grateful to the authorities and private sector participants for their excellent cooperation.** The author benefited greatly from the inputs and views expressed in meetings with the insurance regulators and supervisors, insurance companies and industry and professional organizations.

B. Market Structure, Insurance Products, and Industry Performance

5. **Switzerland has a large and sophisticated insurance market.** Insurance assets accounted for more than 8 percent of the country's financial sector assets at the end of 2023. Total premiums written by Swiss insurers exceeded CHF 140 billion in 2023, making the Swiss market the world's 17th largest. High insurance density (premiums per capita), and insurance penetration (premiums written as a percent of GDP), compares well with other markets in the region (see Table 1). Regarding insurance density, Switzerland was ranked fifth of 72 countries recently surveyed by Swiss Re in 2024[12]. The same survey ranked Switzerland as having the 17th highest insurance penetration rate over the 72 countries surveyed.

Table 2. Switzerland: Insurance Penetration and Density in Selected Countries, 2023

Country	Life Penetration %[1]	Life Density US$	Non-life Penetration %	Non-life Density US$	Total Penetration %	Total Density US$
Switzerland	2.9	2,832	4.0	3,998	6.9	6,830
Germany	2.1	1,106	3.4	1,804	5.5	2,910
France	3.2	2,431	5.5	1,435	8.7	3,867
Italy	4.9	1,878	2.2	830	7.1	2,708
United Kingdom	7.1	3,466	2.6	1,294	9.7	4,759

[1] In the case of life insurance, the penetration very much depends on the pension system of the country. In the case of Switzerland, the low numbers are explained by the second pillar, which provides most of the longevity protection out of pension funds.

Source: Swiss Re—SIGMA 3/2024.

6. **There were 194 active insurers supervised by FINMA at the end of 2023** (Table 3). The number of insurers has declined slightly from 2019, when there were 198 insurers in the market. The market had new entrants but there were also some insurers exiting the market. There have been no insurer bankruptcies during this period, but mergers and acquisitions mainly contributed to the

[11] The most recent full assessment of Swiss insurance regulation and supervision against the Insurance Core Principles was conducted in 2014. An analysis of key aspects of the regulatory and supervisory system was also conducted in June 2019 as part of the 2019 FSAP and is documented in IMF Country Report No. 19/185, Switzerland Technical Note - Insurance Regulation and Supervision.

[12] sigma 3/2024: World insurance: strengthening global resilience with a new lease of life | Swiss Re

decline of the number of active insurers. Many Swiss-domiciled insurers are joint stock companies, and a smaller number of insurers are mutual insurance companies. Branches of foreign non-life insurers are common in the market and their number has remained relatively constant since 2019.

Table 3. Switzerland: Number of Active Insurers Supervised by FINMA

Type	2019	2020	2021	2022	2023
Life Insurance:					
Swiss insurers	16	16	14	15	15
Branches of foreign insurers	3	3	3	3	3
Total	**19**	**19**	**17**	**18**	**18**
Non-life Insurance:					
Swiss insurers	72	69	70	68	69
Branches of foreign insurers	46	47	48	47	48
Total	**118**	**116**	**118**	**115**	**117**
Reinsurance:					
Reinsurers	25	25	25	22	24
Reinsurance Captives	25	25	25	24	24
Total	**50**	**24**	**50**	**46**	**48**
General Insurers with Supplementary Health Operations	11	10	10	10	11
Total Supervised Entities	**198**	**195**	**193**	**189**	**194**

Source: FINMA.

7. **FINMA does not supervise all insurers active in the Swiss insurance market.** Insurers offering compulsory fire and elemental perils (accounting for more than CHF1 billion in annual gross premiums) are independent private insurers that are in the responsibility of the local cantons in which they are based but do compete directly with federally regulated insurers in some product lines. Compulsory health insurers and other social insurance providers (36 compulsory insurance funds (Krankenkassen) providing more than CHF 40 billion in basic health insurance each year). The Krankenkassen also operate on a cantonal level but are supervised by the Swiss Federal Office of Public Health (FOHP), through the Federal Social Insurance Office (FSIO). Some of the basic health insurance providers also sell supplementary insurance products but this market has declined to approximately CHF 400 million in 2023 from about CHF 2 billion in 2019 due to a decision by a FOHP regulated entity to split its operations into one for basic health care insurance and one for supplementary insurance products (which is regulated by FINMA). Foreign based reinsurers with no physical presence in Switzerland doing business with Swiss insurers are not licensed or regulated by FINMA.

8. **The insurance sector is concentrated but offers a diverse range of products.** Life insurance accounted for approximately 18.3 percent of premiums written in 2023 with the top 6 life insurers accounting for 85.3 percent of these premiums. Non-life insurance accounted for 43.8 percent of

premiums written with the top 8 non-life insurers underwriting 82.7 percent of the premium, and reinsurance business accounted for a further 37.9 percent of premiums written in 2023. In addition, according to FINMA, about 35 percent of total non-life insurance premiums written as well as most of the country's reinsurance business are with non-Swiss clients.[13]

9. **Premium growth has been low in recent years, as was seen in many other mature insurance markets.** Total gross premiums grew by 8.9 percent from 2019 to 2023. The impact of Covid-19 is clearly reflected in the decline of gross premiums during 2020 and 2021 (Table 4) but total gross premiums for 2023 have reach levels above Covid-19, except for life business. The increase in gross premiums for the non-life and reinsurance sectors are mainly attributable to inflationary increases as well as increases in real estate property values. The decrease in the life sector was mainly due to a decrease in group occupational pension schemes (a reflection of the economy) and the reluctance of life insurers to offer any investment return guarantees on the individual savings products.

Table 4. Switzerland: Gross Premiums Written by FINMA Insurers (Million CHF)

	2019	2020	2021	2022	2023
Life	32,022	26,750	24,989	26,149	25,847
Non-life	45,858	46,692	48,838	51,455	61,435
Reinsurance	51,288	45,564	45,559	51,261	53,315
Total	**129,168**	**119,006**	**119,387**	**128,865**	**140,598**

Source: FINMA.

10. **Life insurance products are mainly focused on retirement and individual savings.** (Figure 1). The largest share of life insurance premiums was for group life insurance products, accounting for 61 percent with more than 93 percent of these representing Group Life Occupational Pension Schemes. Individual life insurance products (17 percent of premiums written) comprised mainly of traditional individual endowment/savings insurance products. Unit linked insurance products and all other life insurance products each account for 11 percent of the total life insurance premiums written. Traditional individual savings products were greatly affected by historically low interest rates with many new products offering no guarantees on investment returns. The maximum guaranteed rate is legally capped by a "maximum technical interest rate", which is calculated according to a deterministic rule based on risk-free rates. Despite the increases in interest rates over the last few years the life insurance market has not reintroduced products with any guaranteed interest rate.

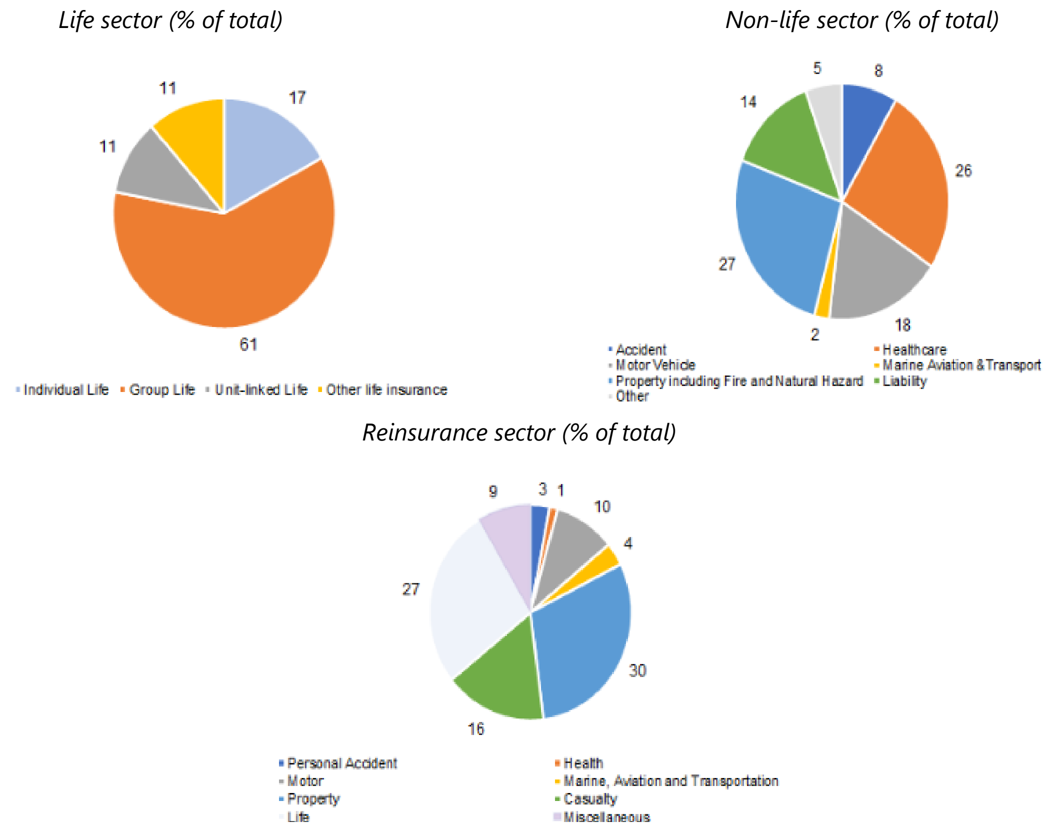
11. **Non-life insurance also included a wide variety of insurance products (Figure 1).** Property insurance products, including fire and natural hazard coverage and health insurance products together accounts for more than half of the premiums underwritten. Motor business is much smaller than what is found in many other countries in Europe and in Switzerland there is a decrease in the number of cars. Other non-life insurance products that are showing increases

[13] FINMA Insurance Market Report.

includes legal protection insurance as well as credit and surety insurance. For credit and surety insurance apartment rental security deposit insurance has grown materially.

12. Switzerland is a major market for international reinsurance business. The main products in reinsurance are based on a combination of lines of business, proportional versus non-proportional covers as well as geographic diversification. Swiss reinsurers are typically very international and domestic business is below 5 percent. Gross premiums written include property reinsurance (30 percent); life reinsurance (27 percent); casualty reinsurance (16 percent); and motor vehicle reinsurance (10 percent). All other reinsurance premium business accounts for approximately 17 percent of premiums written. Insurers, as well as reinsurers, are permitted to write reinsurance business if it is in the same class of insurance business that they are authorized to write.

Figure 1. Switzerland: Composition of Gross Written Premiums (2023)



Source: FINMA and IMF Staff.

13. There are no statutory or prescribed tariffs in the non-life sector other than for elemental perils cover. Switzerland's elemental perils insurance is regulated by the Insurance Supervision Act (ISA) and the Insurance Supervision Ordinance (ISO). These acts require that all private insurance companies offer uniform coverage and premium rates for natural hazards. There are no statutory tariffs in the Swiss life market but premium rates for group schemes and health insurance and some life products and surrender values for individual insurance products must be submitted to FINMA for approval before use.

14. Basic health insurance is a compulsory product in Switzerland. Compulsory health insurance is provided under the Federal Health Insurance Act, and basic health insurance providers are supervised by the FOPH. There were approximately 39 health insurance funds operating across the country in 2023, writing approximately 40 billion CHF in basic coverage. They also provide approximately 400 million in supplementary coverage. These organizations are run like mutual insurance companies and may provide supplementary as well as compulsory health insurance coverage. There are also 5 small insurers regulated through FOPH which provide insurance for loss of earnings associated with illness. Individuals may also purchase supplementary health coverage from private insurers to supplement their compulsory coverage. In 2023, there were 11 general insurers providing such supplementary coverage. The number of private insurers engaged in this business has remained relatively constant since 2019.

15. The market includes many participants which are members of insurance groups. Five Swiss insurance groups have been identified as IAIGs since 2016. In addition, 18 foreign IAIGs have licensed insurance entities in Switzerland (insurance subsidiaries or insurance branches). Seven of these groups have American home supervisors, seven have European home supervisors, three have Japan as a home supervisor, and one has Australia as a home supervisor. FINMA consider the traditional insurance activities as being not systemically important and to date have not identify a domestically or globally systemically important insurer domiciled in Switzerland.

16. Lloyd's of London is a participant in the Swiss insurance market. Lloyd's is an insurance and reinsurance marketplace whose member syndicates provide coverage against risks. Lloyd's is licensed to write direct insurance and reinsurance business in Switzerland except for life, sickness, and legal expense insurance. Lloyd's has a special license which was granted by the Swiss Federal Council in 1947. The supervision of Lloyd's follows the rules for the supervision of branches of foreign insurance entities. Lloyd's is currently the 16th largest non-life market participant.

17. The insurance sector is concentrated and highly interconnected. In 2023, the top five life insurers held a 78 percent share of life sector assets, the top five non-life insurers had 74 percent share of non-life assets, and the top five reinsurers held an almost 90 percent share of reinsurance sector assets. In addition, the top five insurers in each sector category are all members of insurance groups. Industry sources indicate that insurance linkages and interconnectedness with other parts of the financial sector are a significant feature of the market. The insurance groups that dominate the market often have companies that include life, non-life, reinsurance, and asset management companies, but ownership linkages with the banking sector are generally limited.

18. Insurance distribution is dominated by agents and brokers, each in turn dominating a specific market segment. Insurer tied agents control most retail lines business while brokers control most large commercial and industrial risks. The insurance needs of small and medium-sized enterprises are shared between agents and brokers. The usage of digital channels such as websites and applications, bancassurance, and B2B-cooperations remain low in Switzerland (less than 5 percent), according to FINMA. FINMA assumes that digital channels are predominantly used by customers for information and comparison purposes and for products with low complexity (e.g. household insurance). Many insurers follow a multi-channel distribution strategy with a strong focus on their own sales force, complementary online offerings, as well as independent brokers. Bancassurance accounts for a very small share of insurance distribution (approximately one percent). It is typically used for the sale of very simple products, daily sickness and accident insurances, and sales of simple products through high street banks to ordinary individuals, in particular term life (including mortgage protection), some savings or savings and protection products, or sales of tailored products for high-net-worth individuals. Since 2019, there has been no significant change in the use of distribution channels.

19. The profitability of the insurance industry has improved over the last two years. Return on Equity (ROE) was 11.5 percent for life insurers in 2023, a significant improvement over pandemic related returns of 8.1 percent 2020, and 9.5 percent in 2021. ROE for non-life business and reinsurance was 22.5 percent and 18.9 percent, respectively in 2023, following a similar increasing trend. The increase in returns is most significant in the reinsurance business, where ROE increased from 2.1 percent in 2022 to 18.9 percent in 2023, following losses due to world events in previous years, which include natural catastrophes like Hurricane Ian and business interruption claims paid during the pandemic. The life insurance industry experienced underwriting losses each year since 2019 but has offset these through investment income.

20. The insurance sector demonstrates adequate capitalization against the minimum requirement. The Swiss Solvency Test (SST) is a risk-based capital standard for insurers in Switzerland. SST ratio for each component of the insurance sector are outlined in Table 5 below. The average solvency ratio for all insurers increased by 12 percent between 2019 and 2023, though it decreased by approximately 6 percent between 2022 and 2023. In 2023, the SST ratio for each sector component was more than twice the minimum prescribed SST (of 100 percent). The largest increase in SST between 2019 and 2023 was experienced in the reinsurance industry (32 percent) while the smallest was in the non-life area (2 percent). The life component increased by 10 percent.

Table 5. Switzerland: SST Ratio[1] by Sector

	2019	2020	2021	2022	2023
Life	201	207	236	243	223
Non-life	271	241	264	303	277
Reinsurance	199	189	203	256	263
Total[2]	**226**	**216**	**238**	**270**	**254**

[1] SST Ratio is a function of the available capital to the risk-based capital requirement.

[2] Totals may not add due to rounding.

Source: FINMA.

21. The solvency requirements are buttressed by a system of tied assets that is intended to provide greater security to policyholder claims in the event of an insurer insolvency. The system requires insurer reserves or technical provisions for life and non-life business to be invested in prescribed lower risk asset classes. The proceeds from these tied assets are used to cover the claims of insured persons in the event of a liquidation. The rules for tied assets specify eligible asset classes limits, valuation rules and requirements for investment organization and process. In 2019, the tied asset coverage ratio was 112 percent. It increased to 114 percent in 2021 but has decreased to 113 percent in 2022 and 2023.

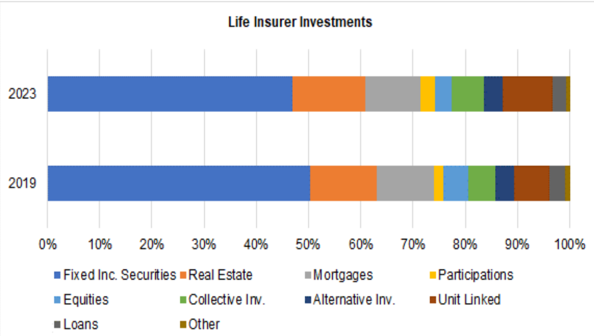
22. Insurance industry's investments total CHF 528,272 million in 2023, down 2.5 percent from CHF 541,749 million in 2019. A portion of this decrease is due to asset price corrections during 2022. The largest share of industry investments was held by the life industry, accounting for 54 percent of total investments in 2023 (down from 56 percent in 2019). The non-life industry had the next largest share of investments with 28 percent of the industry total in 2023 (up from 26 percent in 2019). Reinsurers accounted for 18 percent of total investments in 2023 (up from 17 percent in 2019).

23. The industry's investment profile, in 2023, remains conservative and very similar to the investment profile in 2019 (Figure 2). Fixed income securities accounted for the largest portion of the investments (43 percent) with an almost even split between corporate bonds (54 percent) and government bonds (46 percent). This compares well with the investment allocation of other EEA countries (See Figure 2). These percentages are also similar for both solo entities and insurance groups. Insurers and insurance groups engage in the use of derivatives but largely for currency hedging purposes and to a lesser extent interest rate hedging purposes. The requirements on the use of derivatives are prescribed by law (see Article 109 of ISO). Specially designated assets (tied assets) are required to back insurance policy reserves. FINMA conducts at least one annual verification to check whether: a) the target amount has been calculated correctly; b) the assets allocated to the tied assets: actually exist; are allocated and held in accordance with the regulations; correspond at least to the target amount and; meet the investment requirements under supervisory law (see Article 85 of ISO). On application by an insurance company, FINMA can approve a list of assets that are suitable for allocation to tied assets. Otherwise, the corresponding investment opportunities are restricted to a short list of standard asset classes (see Article 79 of ISO). The average return on investments in 2023 was 2.95 percent, down from 4.7 percent in 2019.

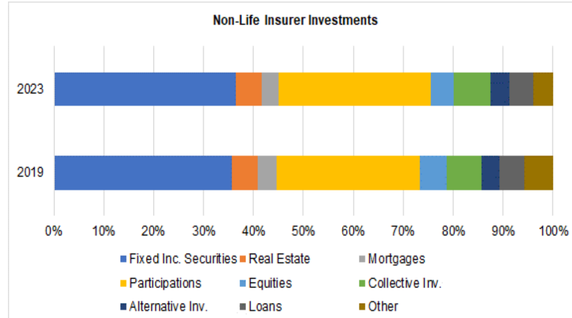
24. The portion of real estate investments and mortgages carried by the life insurance sector is larger than that found in many insurance markets. FINMA's concept identification of emerging, sector-wide and systemic risks in the insurance sector process (CESSI) identified insurers' real estate exposure as a potential systemic risk and have increased its supervision. Recent regulatory changes also limit exposure to real estate investments and mortgages and addresses matters such as security, quality, liquidity and profitability of the portfolio. Life insurers use these assets for asset liability matching purposes for their long-term liabilities as well as to increase yield. The Swiss financial market does not have a large market for long-term bonds as an alternative matching instrument. Approximately 24 percent of life insurers' investments were made up of real estate and mortgage investments, approximately 14 percent of this was real estate. In the EU, real estate investments comprise only 10.5 percent of life insurer assets. Investments in real estate tend to be in retail portfolios rather than higher risk areas like commercial real estate.

Figure 2. Switzerland: Composition of Insurers' Assets

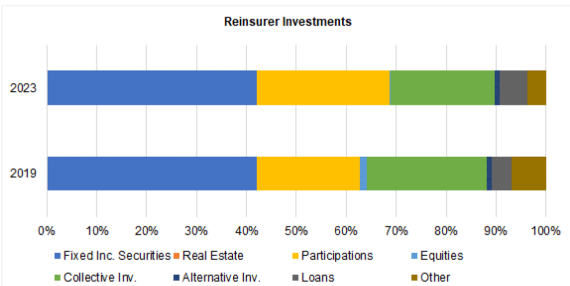
Life insurers investment changes mainly due to valuations and some shift towards unit linked business….



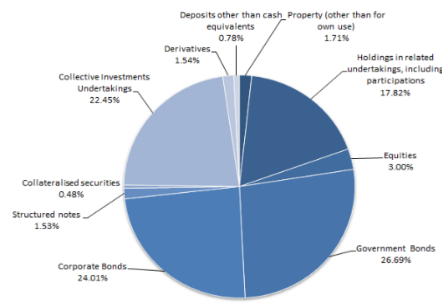
The dominance of the non-life sector and the presence of large insurance groups supports the high percentage in participations….



Reinsurers investments shows a shift from investment funds to participations …



EEA insurers' investment portfolios end 2023, excluding unit linked business



Source: FINMA and IMF Staff.

Source: EIOPA.

C. Risks and Vulnerabilities

25. **An assessment of the risks and vulnerabilities of the Swiss insurance sector will be done in the insurance stress tests performed as part of the FSAP.** A separate technical note will cover this. This part only focuses on a few specific areas relevant to the review of regulatory framework and supervisory practices.

26. **Many of the drivers of risk are international in scope, rather than domestic, and are related to international geopolitical events or changes to the world economy**. Inflation had an impact on the non-life insurers which needed to increase technical provisions and in some cases the premiums as well. This was particularly prevalent in the motor line of business as well as supplementary health. The maximum permissible increase in premiums in supplementary health insurance is limited to the level of inflation. FINMA views stagflation as an increasing risk and has in the last 3-year stress tests focused on major stagflation scenarios.

27. **Interest rate risk impacts mostly life insurers with different effects.** Increasing interest rates positively impact the liabilities but negatively impact the assets. An increasing interest rate environment might result in increases in lapses and surrenders. In Switzerland, life insurers are allowed to make deductions from surrender values for interest rate risk and a partial claw back of

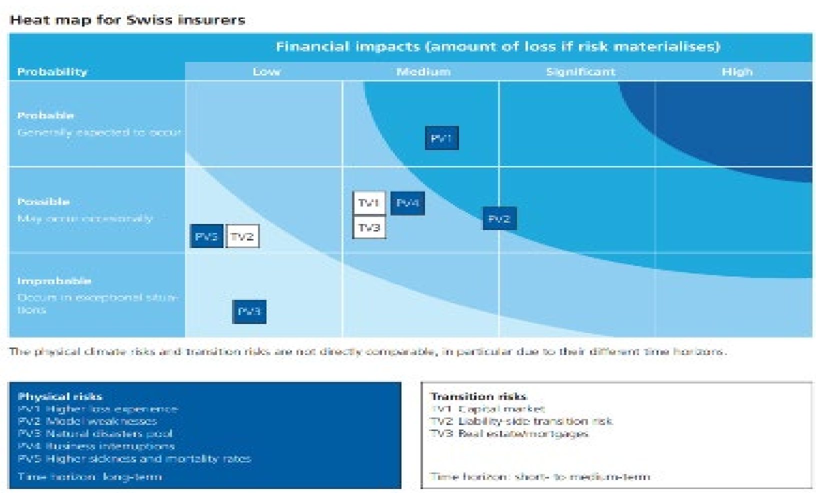
sales costs with the deductions being capped at not more than one third of the surrender value. Furthermore, for certain policies there is a tax deductible for premiums and surrenders of these policies only allowed in very specific circumstances (e.g. the use of the surrender value for investment in residential property for own use). Lastly, life insurers have also reduced and in most cases removed any investment guarantees on savings policies.

Box 1. Switzerland: Climate Risk Supervision

Climate change and other sustainability risks are also receiving considerable attention.
FINMA, as part of its strategic goals for 2021-2024, included sustainable development of the Swiss financial Centre by considering climate-related risks in its supervisory work and urging the financial institutions to tackle these risks transparently.
Internally, FINMA has created a central Sustainable Finance unit. The purpose of this unit is to facilitate cross-division exchange and knowledge transfer on climate-related risk. The Unit is made up of representatives from the various divisions within FINMA who are dedicated to this topic (currently 4-5 people).

Regulatory Requirements
FINMA has addressed climate related risks in a few circulars and guidance. The areas covered includes disclosure requirements and risk management and corporate governance. FINMA has issued a new circular 2026/01 "Nature-related financial risks"[1] wherein FINMA requires institutions (including insurers) to consider the impact of climate and other nature risks on their strategy and to consider related legal and reputational risks. It also requires institutions to regularly assess whether their business strategy, business model, risk tolerance and risk management are in line with their sustainability-related public statements and legal obligations. This new circular includes explicit requirements regarding the inclusion of material nature-related financial risks in an insurers ORSA covering the impact on (i) the overall risk profile and capital requirements be included in the scenarios within the ORSA and addressed under the risk mitigation measures.

Supervisory Approach
During 2019/2020 FINMA performed an initial qualitative assessment of climate-related financial risks for the Swiss financial market. This assessment covered both physical and transition risks and the heatmap published by FINMA summarizes the findings for the insurance sector.
The abovementioned survey concluded that for physical risk the societal risks (e.g. protection gap) are significantly higher than the direct physical risks for insurers. The most material transition risk for insurers stems from their involvement on the capital markets.



The result from the survey is further used by FINMA for its annual bilateral engagements with the larger insurers and its half-yearly expert panel discussions with industry representatives covering climate-related financial risks.

FINMA is currently performing its first data collection on climate risks focusing on areas such as general risks assessment and outlook, on the asset side risk appetite for investment portfolios including transition planning as well as risk limits to carbon intensive sectors and on the liability side of the balance sheet risk appetite on underwriting (including natural catastrophe events per geographical region) and risk limits on underwriting in carbon intensive sectors.

Box 1. Switzerland: Climate Risk Supervision Concluded

On-site inspections focusing on how climate-related risks was considered in the risk management, actuarial, and other functions of insurers were also conducted at some insurers.

Natural Perils Pool
It is a voluntary pool that was set up in 1936 and currently has 12 private insurers as members, covering 90 percent of the natural perils market. The aim of this pool is to spread the climate related risk among them from segments of the population with the greatest need of protection (such as the inhabitants of the alpine regions of Switzerland) from floods, avalanches, and similar natural hazards. This pool enables its participants to offer natural perils insurance at standard premium rate determined on the value of the house and not considering the location. The losses incurred is shared amongst the members according to their market share in Switzerland.

____

[1] FINMA Circular 2026/01: https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/myfinma/rundschreiben/finma-rs-2026-01.pdf?sc_lang=en&hash=8D72D84C2DF2489DA571190B3C760C90.

Source: FINMA.

28. Technology-related risks are growing but pure digital solutions are only available on a small scale. Insurtech firms have typically been partnering with insurers, rather than seeking to replace them and are not yet a major feature of the market. Switzerland has technology-neutral regulation that is intended to regulate Insurtech against the same regulatory principles that apply to other insurers and continues to closely monitor the market. The revised Insurance Supervision Law introduces the possibility of wholly or partly exempting small insurance companies with innovative business models from supervision. Respective criteria are defined for small insurers as well as for new insurers with a small portfolio. The latter is intended to serve as a regulatory sandbox for new business models such as Insurtech.

29. The use of SupTech within FINMA is focused on increasing efficiency and effectiveness. FINMA has added additional staff to improve data management and analysis. An Innovation Lab has been established where various technologies are being tested for implementation as part of conduct supervision. The use of AI and BOT technology is also planned.

Recommendations

30. FINMA should continue building what has already been put in place for climate risk supervision. This includes collecting data and improving data quality and reviews of climate stresses in the ORSA reports and providing feedback to the industry.

D. Institutional Setting

31. FINMA is a consolidated supervisor established under the Swiss Financial Market Supervisory Authority Act, 2007. Its main responsibilities include supervision of banks, insurance companies, financial markets infrastructures, investment funds and investment fund management companies, as well as asset managers and untied insurance intermediaries. FINMA is mandated to protect financial market clients (e.g. creditors, investors, and policyholders) and is responsible for ensuring that financial markets function effectively and in a stable way. FINMA is governed by a Board of Directors and managed by an Executive Board. Its operations are funded from fee revenue received from its regulated industries. The Federal Council appoints Board members including the

Chair and Vice-Chair for a term of four years and may remove them if it determines that the requirements of the office are not being fulfilled. The CEO and division heads (the Management Board) are appointed by the Board of Directors, but the CEO appointment (and removal) must be approved by the Federal Council.

32. Insurance supervision is mainly governed by the Insurance Supervision Act (ISA). The ISA establishes the objectives, requirements, parameters, and processes of private insurance supervision and contains provisions for taking up and conducting insurance activities as well as run-off. Through this framework, the regulator aims to protect policyholders and beneficiaries from conduct abuse and the risk of insurer insolvency. In addition to the ISA, insurance regulatory requirements are established in ordinances issued by the Switzerland's Federal Council and FINMA. The major ones include the following:

- *The Insurance Supervision Ordinance:* The Ordinance sets out detailed regulatory requirements for supervision of private insurance companies and insurance activity in Switzerland.
- *The FINMA Insurance Supervision Ordinance:* This Ordinance further defines certain provisions of the Insurance Supervision Act and the Insurance Supervision Ordinance that have been delegated to FINMA by the Federal Council; and
- *The FINMA Insurance Bankruptcy Ordinance:* This ordinance defines requirements for the bankruptcy proceedings of insurance companies.

33. The insurance industry must also comply with the Insurance Contracts Law, which establishes statutory requirements for insurance contracts. In application of the Insurance Contracts Law, the final arbitrator of contractual disputes is the court system. Insurance entities must also meet requirements of Anti-Money Laundering Act and subordinate ordinances (which are also supervised by FINMA), and other laws of general application.

34. The Insurance Division is organized into eight sections and the staff complement of 114 was comparable to its 2019 level of 101, except for an increase by 9 for conduct of business supervision (Figure 3). The aggregate staff complement appears to have a strong mix of professional skills and supervisory experience including actuaries, lawyers and people with risk management expertise. Further support is also provided by other FINMA Departments such as the E*nforcement Division, Recovery and Resolution Division*, *Supervisory Policy and Legal Expertise Division* and the *Banking Supervision Division* responsible for the FINMA wide function for operational, cyber and IT risks, to name some. There is no fixed allocation of resources from these other divisions and varies from year to year depending on specific topics or case-by-case issues during the year.

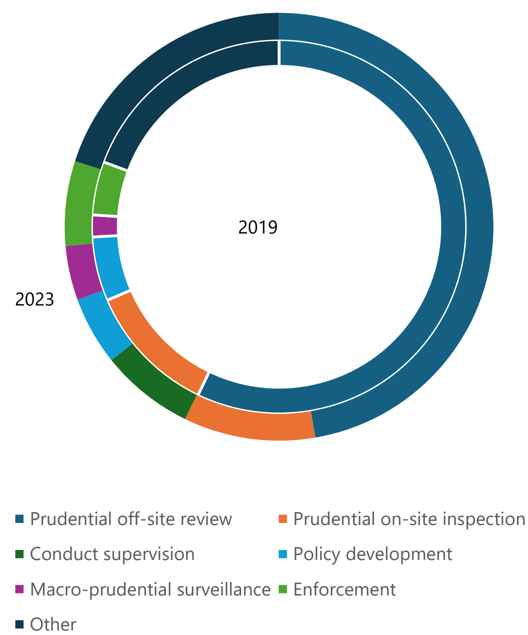
35. FINMA has the power to appoint third party agents or mandataries to assist it in performing its supervisory duties. This power is intended to give the authority swift, flexible access to external experts. The power is used to conduct regulatory audits of insurers within a scope subject established by FINMA and to assist in the conduct of complex examinations or investigations where special knowledge is required.

36. External audit firms are contracted to conduct the work within an examination program or scope of audit scripted by FINMA staff. The "regulatory audit" work is performed by the insurer's external financial auditor. FINMA provides instructions and monitors the audit work regarding "regulatory audit. The contract for provision of these services is between the regulated insurer and the audit firm rather than between the supervisor and the audit firm. FINMA also uses mandataries as agents to investigate some enforcement issues or to temporarily replace, for example, an intermediary executive body where the removal of the executive is deemed necessary. The authority maintains a list of suitable candidates for such appointments, and the cost of the agent or mandatary is borne by the entity that is the subject of the supervision.

Figure 3. Switzerland: Insurance Supervision Structure and Resources

The Insurance Division's organization structure…

Staff allocation to supervisory activities……



Source: FINMA and IMF Staff.

Recent Legislative Changes

37. Several legislative amendments to ISA have been made in June 2023, when the Federal Council passed the revised Insurance Supervision Ordinance (ISO). The amendments, together with the ISO, came into force on January 1, 2024. Further subordinated guidelines (e.g. FINMA-Ordinance and FINMA Circulars) entered into force on September 1, 2024. These amendments aim at strengthening insurance protection and the competitiveness of the insurance industry, in line with international developments, including alignment of Swiss insurance regulations with EU regulations. The changes follow five main themes outlined below.

- **Customer protection-based regulation and supervision*:*** Insurers and reinsurers can benefit from regulatory relief if they meet certain quantitative and qualitative minimum requirements or serve professional policyholders (e.g., a lower level of protection related to tied assets required for insurance contracts among professional counterparties than for contracts with retail customers or the introduction of a special supervisory regime for small insurers given their ability to maintain policyholder protection). Furthermore, there is the possibility for very small insurance undertakings with innovative business models (regulatory sandbox) to be either wholly or partly exempted from supervision. The new legislation (as per January 1, 2020) also states increased cooperation and coordination between FINMA and the Federal Office of Public Health in coordinating their supervisory activities and exchanging relevant supervisory information.

- **Solvency and tied assets:** SST requirements have been given a revised basis in law, with some provisions being moved from circular to ordinance level. In addition, various implementation provisions (e.g. those laid out in circulars) are now being revised and are to be more principle based.

    - The principles of market consistent valuation and risk-based capital requirements were strengthened. With the reform, no relief measures in the solvency calculation (e.g. regarding the interest rate for discounting liability cash flows, the risk margin, long term equity) will be permitted.

    - Regarding tied assets, greater flexibility is being introduced respecting tied asset investments as detailed investment limits are being relaxed moderately, subject to principle-based rules and insurers adhering to Prudent Person Principle.

    - Some debt instruments with risk absorbing characteristics may be recognized as additional risk-bearing capital or may reduce the target capital in the SST. These have been categorized into two tiers: Tier 1-Instruments must be converted into equity or written-off in case of a Trigger-Event; and Tier 2-Instruments for which payments must be deferred in case of a Trigger-Event. For the effective functioning of risk-absorbing capital instruments (especially tier 2 instruments) in case of serious problems of an insurer their treatment in the determination of insolvency became more precise.

- **Insurance groups:** Additional requirements for insurance groups were implemented

    - Insurance Group Actuaries will be required to prepare an annual report (in accordance with IAIS ICPs/ComFrame) on the IAIGs management of insurance activities and risks posed to the IAIG. The actuarial function must also directly inform the Board of Directors of significant changes.

- Changes to the Group Board of Directors or the Executive Committee of the Group must be submitted to FINMA for approval.

- **Insurance intermediation and conduct of business**: The law on intermediaries is being modernized and will require a more elaborate approval process for new applicants and ongoing prudential supervision. Tied insurance intermediaries will no longer be allowed to register with FINMA. Special provisions will now apply to untied insurance intermediaries regarding the disclosure of compensation by insurance companies or third parties and conflict of interest. For the sale of insurance products with an investment character, special conduct and information obligations (e.g. Key Information Statements) are being introduced. Key information documents will include information like type and characteristics of insurance product, identity of the insurer, risk and return profile and costs. Intermediaries must also perform and document product adequacy checks.

- **Restructuring law:** The Insurance Supervision Act now provides the legal framework for the recovery and resolution of an insurance company. Previous insurance law forced FINMA to order bankruptcy as soon as an insurance company got into serious financial difficulties. A restructuring procedure has been enshrined in law that will enable FINMA to restructure an insurance company in difficulty in the interests of policyholders instead of ordering bankruptcy. New requirements have been established regarding recovery planning (all groups and certain solo companies) and resolution planning (groups). These are intended to be in line with FSB and IAIS standards. Furthermore, the treatment of risk-absorbing capital instruments in the determination of insolvency became more precise.

38. The Insurance Contracts Law has also been partially amended in recent years and various changes came into force on January 1, 2022. Some of the most important amendments include changes to the conclusion of the insurance contract (i.e. introduction of a right of withdrawal), termination rights, limitation provisions, and direct claims rights for third-party liability insurance. In general, these amendments appear to be intended to enhance consumer protection and improve the position of policyholders while addressing some concerns of the insurance industry related to insurance contracts such as adaptation requirements to facilitate electronic commerce.

E. Status of Previous Assessment Recommendations

39. The implementation of the previous FSAP recommendations has been progressing well, with a few key recommendations still outstanding (Table 6). With amendments in 2019, more of the key features of the capital adequacy system (the SST) have been moved from circulars to ordinance, which is in line with the previous FSAP recommendations. This improves legal certainty of requirements and enforceability. Under the ISA, the Federal Council and FINMA have the power to pass and implement regulatory Ordinances. FINMA circulars provide guidance on interpretation and implementation.

40. FINMA implemented ORSA requirements in 2016 and is now using aggregated ORSA information in its macro prudential analysis as well as in its specific entity supervision. Further changes are planned to help standardize ORSA templates and more effectively use the information received in future years.

41. FINMA has also improved the transparency of aspects of the regulatory framework through better information and notes provided on its website. This type of work should continue so that industry and the public can understand the principles, concepts, and core process that FINMA uses to guide its supervision of regulated financial institutions.

42. Furthermore, FINMA and the Federal Office of Public Health (FOPH) have increased information sharing and interagency cooperation. The recent insurance law amendments have elevated this responsibility to a legal requirement, and several activities of significance have increased the collaboration between the two institutions, such as selected staff secondments, hiring of some FINMA employees at FOHP, collaboration on audit plans, and bi-annual sessions and numerous specialized issue discussions.

Table 6. Switzerland: Status of 2019 Recommendations

#	Recommendations and Responsible Authorities	Current Status:
1	Lay down more key SST features in legally binding Ordinances, and make insurance regulation more transparent (FDF, FINMA).	Fully implemented
2	Systematically collect relevant information on exposures towards the banking sector, in particular with regard to contingent convertible bonds (FINMA).	Not implemented
3	Require that basic mandatory health insurance and supplementary health insurance are provided by two separate legal entities (FDF, FINMA).	Not implemented
4	Use aggregated ORSA findings as input for macroprudential surveillance (FINMA).	Fully implemented
5	Strengthen regulation of business conduct, create corresponding competences for supervision by FINMA, and allocate sufficient resources to this task (Government).	Partly implemented
6	Intensify the analysis of group-specific risks, including liquidity risks and the fungibility of capital (FINMA).	Fully implemented
7	Increase the frequency of assessments of FINMA’s operational effectiveness by the Federal Audit Office (Federal Audit Office).	Not implemented
8	Intensify further the technical cooperation between FINMA and the FOPH (FINMA, FOPH).	Fully implemented
9	Strengthen the analytical framework for assessing operational risks and prescribe capital add-ons if needed (FINMA).	Fully implemented

Source: IMF, FSAP 2019.

43. On the other hand, less progress has been made in other areas. For example, the 2019 recommendation to systematically collect relevant information on insurers exposures towards the banking sector, particularly regarding contingent convertible bonds, has not been implemented. This information was seen to be important in understanding the macroeconomic implications of interlinkages between the domestic banking and insurance sectors. FINMA indicates that it aims at collecting more information about the interconnectedness between the two sectors, although based on already available information it deems that to be limited.

44. The 2019 recommendation to separate the provision of basic mandatory health insurance and supplementary health insurance is still outstanding. While no legislative change has been implemented to require this, FOHP indicated that the volume of supplementary premiums written by basic health insurers has decreased significantly by the split of one FOHP insurer into two entities- one supervised by FOHP and one supervised by FINMA. As a result, the volume of supplementary health insurance provided by FOHP insurers has decreased from about 2 billion CFH to 400 million CFH.

45. Furthermore, the recommendation to increase the frequency of assessments of FINMA's operational effectiveness by the Federal Audit Office is still lagging behind. FINMA indicates that the Federal Audit Office has not increased the frequency of its audits thus far and the decision to do so rests with that authority rather than FINMA.

REGULATION AND SUPERVISORY OVERSIGHT

A. Suitability, Corporate Governance, and Internal Control [14]

46. The suitability requirements of insurers' board members and senior managers are rigorous. FINMA performs detailed suitability assessments for all new board members and the senior management of insurers. It also requires insurers to notify FINMA of any significant changes which could affect the suitability of these individuals. The framework does not, however, extend to the heads of all control functions, except for the Actuarial function which is subject to a separate well-defined process. Heads of control functions may be subject to suitability checks if they are part of the insurer's senior management team, but if they are not, they may not be subject to suitability checks. Similarly, significant owners are subject to initial suitability checks for integrity and financial soundness. If a suitability issue for a significant owner occurs after initial approval, however, it is not clear that the supervisor has strong legal powers to adequately address the problem (e.g. the power to require the divestiture of the ownership interest in question).

47. Corporate governance requirements are also robust at both solo entity and insurance group level. The legal basis as well as FINMA's supervisory guidelines are comprehensive, and the supervisory oversight appears to be generally adequate (see supervisory practice below). There are, however, some aspect of governance that require further attention.

48. Current Swiss requirements compel individual board members to exercise a duty of care to the insurer, but acting in the interests of policyholders is not explicitly required. This requirement is particularly important to ensuring a culture of fair treatment of customers and ensuring appropriate conduct of business. FINMA considers that the requirement to act in the best interests of the insurer and policyholders, putting those interests ahead of its own interests is

[14] The analysis in subsection A has been made with reference to ICPs 5, 7, 8, and 16.

implicit. In particular, this is assumed given the non-transferable and inalienable duties duty of the board to overall supervision of the persons entrusted with managing the company, in particular with regard to compliance with the law, articles of association, operational regulations and directives (Art 716a Code of Obligations para 5), and the requirement to the members of the board to guarantee a proper business practice (Art 14 ISA), in combination with the ISA and the ICA which aim to protect policyholders and insured, as well as rules regarding conflict of interest (art. 717a Code of Obligations) and (art. 717a ISA).

49. Risk management and internal control requirements appear to be strong at both a solo entity and the group level with some requirements to address weaknesses identified in previous FSAPs being relatively new. Insurers are required to have a risk management system and an internal control system in place. The requirements are broad and cover all foreseeable risks and must be updated annually by the Board, for example risk potential must be identified and assessed at an early stage; risk management measures must be introduced at an early stage to prevent or hedge significant risks and risk accumulations; and business activities must be conducted within the given risk-bearing capacity of the insurer. Furthermore, Internal control requirements include the requirement for effective compliance processes. Article 96 of the ISO requires that that in their entirety, they ensure that all legal standards and internal regulations are adhered to. In addition, the internal control mechanisms must include an effective compliance function.

50. FINMA requires insurers and insurance groups to verify the effectiveness of the system of internal controls including the risk management system annually. As past of the annual regulatory audit report the external auditor is required to assess the system of internal control and report on its assessment. The head of the group-wide risk management function is also required to periodically (at least annually) assess the adequacy of the risk management system of the group, which includes an assessment of the internal controls system (FINMA-Circular 2017/2 no. 41). This is further supported by supervisory activities whereby FINMA performs periodic assessments of insurers' internal controls system.

51. A comprehensive approach to the supervision of outsourcing arrangements, at both solo and group level, applies. Every material outsourcing and sub-sourcing must be submitted for approval by FINMA. The supervision is supported by a set of regulatory requirements applying to outsourcing which includes amongst others risk management, internal controls, business continuity and exit planning, governance, and contractual arrangements. Every material outsourcing arrangement approved by FINMA is registered on the FINMA-Database. The database reflects that 42 percent of outsourcing arrangements are intragroup due to the centralized and standardized governance frameworks. The main functions outsourced relates to asset management, compliance functions and information technology.

52. In addition, insurers and insurance groups are required to establish four distinct control functions. These include risk management, compliance, internal audit and actuarial. This requirement has been significantly strengthened since the 2014 assessment.

Recommendations

53. FINMA and the FDF should extend legislative requirements to:

- Strengthen existing suitability requirements to ensure that the heads of all control functions are subject to suitability review - on initial and ongoing basis.
- Increase legal powers to manage significant owners who no longer meet suitability requirements on an ongoing basis.
- Broaden the responsibility of individual insurer Board members to act in the best interests of policyholders as well as in the best interest of the insured.

B. Supervisory Review[15]

54. The Swiss supervisory framework for insurers is a risk-based approach that relies on a comprehensive solvency focused approach. It is supported by strong reporting powers, and extensive risk-based off-site and on-site supervision to examine and evaluate the business of each insurer, including its compliance with regulatory requirements, governance, financial condition, and risk profile. An example of the use of increased reporting by insurers was the increased reporting applied by the supervisor during the Covid 19 pandemic.

55. The framework begins with the establishment of a supervisory category and intensity for each insurer. The supervisory category is based on the size and complexity of the insurer and customer segment that its services, the supervisory intensity on the insurer's perceived risk profile (rating). Insurers are rated from one to five with one being the highest intensity rating and five the lowest. The supervisory intensity rating and the risk profile of the insurer determine the supervisory activities that the institution will be subject to. Each institution has a key account manager who is the institution's primary FINMA contact, and reports to a more senior supervision manager. Key account managers are generally rotated every five years. FINMA has a Standard Operating Procedures (SOP) application that acts as a major repository of supervisory information. It includes information on the supervisory activities that the insurer is (and has been) subject to, procedures for the conduct of those activities, their operational status and previous history and links to relevant guidance to be followed by staff.

56. Off-site reporting requirements are extensive and include requirements for both solo entities and insurance groups. FINMA has also prescribed additional reporting requirements for its IAIGs. In addition to the regular prescribed reporting requirements FINMA also conducts stress testing exercises as well as surveys which information is analyzed. Table 7 describes the various reporting requirements.

57. The results of the off-site monitoring are analyzed and summarized through a sophisticated automated tool called FINMA Rating for Insurance Companies (FRV) / Business

---

[15] The analysis in subsection B has been made with reference to ICPs 9 and ICP 24.

Intelligence (BI) cockpit. Analysis of off-site monitoring includes comparison to a set of rating indicators each composed of several rating factors).

58. Onsite supervision is generally conducted by an onsite team made up of supervision staff and specialists. Onsite inspections are generally targeted to specific areas of risk or supervisory concerns. Major groups receive as many as four or five targeted onsite inspections per year, while those with a lower supervisory intensity rating receive less attention. Including preparation time and communication of findings, onsite inspections typically last approximately 2 months. The results of onsite are also recorded in the FRV/BI Cockpit.

59. All supervisory findings are communicated and discussed with the insurer. The results of offsite or onsite activities are recorded on a continuous basis and can trigger changes in supervisory intensity and additional supervisory activities. The supervisory cycle is annual, but insurers are required to report significant changes or events to the supervisor as they occur which may also result in additional monitoring, supervisory reporting, or intervention activity.

Table 7. Switzerland: Off-Site Reporting Requirements

Insurers	Insurance Groups (including IAIGs)
Annual regulatory report (financial results, management reports, tied assets, TPs etc.)	
SST report	
ORSA	
Financial Condition Report	
Governance assessment	
Outsourcing arrangements	
Actuarial report	
Ad-hoc reports (Material events and Cyber incidents)	
Audit reports	
	Group Structure
	Intra-group transactions
	Group Governance framework
	Group policies
	Risk documentation
	Internal audit reports
Changes in business plan	

Source: FINMA.

60. FINMA supplements its resources and extends its supervisory work by private audit firms and mandatories. Regulatory audits are performed on an annual basis. This is defined in the standard audit strategy. The regulatory audit is performed by the external auditor of the insurer. The regulatory audit is carried out in accordance with FINMA's instructions (with regard to scope and the audit program) and supervised by FINMA. In addition to FINMA's supervisory activities and regulatory audits, FINMA may also appoint audit mandatories for specific topics. In the event of such specific audits, FINMA may appoint additional mandataries- if, for example, specialist expertise or an independent opinion is required. For such mandates, audit firms, which are not in charge of the insurer's financial or regulatory audit, are selected by FINMA. FINMA defines the scope, provides instructions for the work of audit mandatories and closely monitors such work. Over the last three years the mandatory hours were on average less than one percent of the total audit hours charged. FINMA conducts on-site inspections on all topics using its own resources.

61. The scope of supervision is continuing to expand. The demands on supervisors and the areas of focus are getting more and more complex. Resource constraints can limit FINMA's ability to expand its range and depth of work. Specialist resources need to be a high organizational priority for the framework to be effective.

Macro-Prudential Supervision

62. The Macro-prudential framework used by FINMA is used to feed into micro-level supervision. FINMA uses a wide range of data which are gathered on an annual basis and are supplemented by ad hoc information requests when needed. Data used in macro-prudential supervision includes but is not limited to:

- General macroeconomic data;
- Survey data from insurers on top Risks and risk scenarios;
- Data collected for and generated from the FINMA Risk Barometer - an internal process for discussing and documenting the results of FINMA's own systemic risk assessments, which includes subject matter experts as well as senior and executive managers within insurance department and across sectors;
- Review and analysis of aggregated ORSA information;
- Detailed real estate and mortgage survey information;
- Stress test information including top-down, and bottom-up approaches;
- SST-Scenario analysis information as well as insights received as part of SST model maintenance, model surveillance, and approval processes;
- External work and discussions with other Swiss institutions, e.g. SNB, academic community;
- Information from the FRV database;
- Market data, e.g. Bloomberg (e.g. for the specification of scenarios).

Data is also exchanged with other relevant authorities such as the Federal Statistical Office, the Federal Department of Finance, The Federal Department of Health, and relevant international organizations like the IAIS.

63. FINMA uses processes and procedures to carry out its macro-supervision and relies on several tools to carry out its work. Macro-prudential supervision includes analysis of financial markets that is both quantitative and qualitative and considers historical trends as well as the current risk environment. Some of the tools FINMA uses include:

- A module within in the FRV-Database the encompasses macro-economic information;
- SST-scenario testing and analysis;
- FINMA risk barometer which provides an overview of the most important risks currently facing supervised institutions over a time horizon of up to three years;
- CESSI—Concept for the identification of Emerging, Sector-wide and Systemic risks in the Insurance sector: CESSI is a tool developed by FINMA over the last four years to identify and analyze emerging, sector-wide and systemic risks. It utilizes information from individual insurers on major own risks and risk scenarios to identify potential sector scenarios. It then attempts to quantify potential sector wide or systemic risk impacts through stress testing. The tool uses bottom-up and top-down stress tests and utilizes both inward and outward facing risks. It also includes feedback loops and critical states/ tipping points as part of its analysis.

64. FINMA has processes in place for discussing the results of its macroprudential supervision and uses this information in developing and applying supervisor practices. For example, in 2021 FINMA used CESSI to assess and mitigate three sector wide and potentially systemic risks. FINMA has also used CESSI to gauge the potential systemic importance of the insurance sector and individual insurers and insurance groups to financial sector stability. FINMA also provides information to the public on the insurance sector through publications like the Insurance Sector Report and the cross sectoral "Risk Monitor."

Recommendations

65. FINMA should reconsider the scale of outsourcing of supervisory work to external auditors. FINMA should reduce reliance on the work of external auditors, while having explicit power to specify their work program and the outcomes. Furthermore, reducing the outsourcing of supervision should be consistent with the organizational goals of staff development and allow FINMA to maintain and leverage institutional knowledge within the supervisory organization.

66. FINMA also needs to increase the number and type of onsite examinations it undertakes to cover all insurers within an appropriate period (e.g. three years). FINMA should develop a tailored supervisory approach for smaller entities or entities with a risk assessment rating of category 3 or higher to ensure that on-site inspections are sufficiently frequent to support its risk assessment.

67. FINMA should also assess resource needs to meet supervisory obligations (both in terms of number and skill set). Such an assessment should focus on resources needed to be fit for purpose in the future versus its current resources (considering both numbers and skills) to identify any shortcomings. This will allow for the development of a strategic workforce plan.

C. Preventative and Corrective Measures and Enforcement

68. FINMA generally has strong legal powers in insurance supervision and the capacity to carry out preventative, corrective measures, and effective enforcement. It monitors overall regulatory compliance of insurers under its jurisdiction including insurance groups to identify regulatory shortcomings at an early stage. Shortcomings are addressed, and corrective action requested and monitored using progress reports delivered to FINMA (See Article 29 of FINMASA) until the matter is resolved.

69. If the matter is not resolved in a timely and satisfactory manner, FINMA may escalate the use of protective measures (see Articles 51 and 51a of the ISA) and/or move to formal enforcement proceedings. Article 51 of the ISA provides a strong legal basis to implement preventative or corrective measures if an insurance undertaking or insurance group or an insurance intermediary fails to comply with the provisions of the Act, or an ordinance, or orders issued by FINMA. The Article is not limited to regulatory contraventions but extends to situations where the insurance undertaking does not comply with a request, or if the interests of the insured persons appear to be otherwise jeopardized. Overall, FINMA has greater powers in insurance supervision compare to bank supervision. ISA allows the supervisor to take necessary measures to safeguard the interests of insured persons including but not limited to:

- Suspending or cancelling an insurers license;
- Prohibiting the free disposal of the insurance company's assets;
- An order to freeze assets;
- Transferring all or part of the powers vested in the governing bodies of an insurance company to a third party;
- Transferring an insurance portfolio and the associated tied assets to another insurance company with the latter's consent;
- Ordering the realization of the tied assets;
- Demanding the dismissal of the persons entrusted with the overall management, supervision, control or of an insurer; and
- Removing an intermediary from the register.

If an individual or entity conducts insurance activities without the necessary license, FINMA also has the power to require restoration of compliance with the law (see Article 31 of FINMASA). It has used this power frequently in the past.

70. The body within FINMA responsible for taking enforcement action against supervised institutions is the Enforcement Committee. The committee is composed of FINMA's directors, the heads of enforcement and supervisory policy and legal experts, as well as the head of the relevant supervision department in question (i.e. the head of the insurance supervision department in case of insurers). In the case of IAIGs, FINMA as group-wide supervisor coordinates with other involved supervisors if the Head of the IAIG, or an insurance legal entity within the IAIG, fails to take action to address the supervisory concerns and to impose sanctions, if necessary.

71. There are two significant areas where enforcement powers should be improved. The first is the authority to establish administrative penalties to deal with minor contraventions and the second is the ability to impose significant fines for major contraventions against entities or individuals. The addition of these powers would significantly complement the existing sanctions arsenal and help to ensure that minor contraventions and very serious contraventions can be sanctioned appropriately. The advantages of having the power to impose administrative penalties is that it can be applied quicker, and it is a less costly route for FINMA to follow. Administrative penalties also provide for flexibility in that the administrative penalty can determined based on the severity of the non-compliance.

72. An additional concern in this area relates to the appeal of regulatory decisions. If an insurer appeals a supervisory decision, the onus is on the supervisor to show that the regulatory decision should not be suspended pending the outcome of the appeal. This could inhibit the supervisor from taking timely corrective action. An alternative approach would be to exempt FINMA's supervisory measures from automatic suspension in the event of legal appeal. The onus should be placed on the regulated entity to show why suspension of the decision is necessary.

Recommendations

73. Complement existing preventative and corrective powers with a system of administrative penalties, including fines. FDF/government should extend the legislative requirements to allow the imposing of administrative penalties and fines as an addition to existing enforcement powers.

74. Revise the existing appeal process for regulatory decisions to eliminate the suspensive effect of a measure imposed by FINMA in the event of an appeal, unless a defined high threshold is met such as clear illegality. The onus should be placed on the appellant to make the case for suspension of the supervisory decision under appeal. This is needed to support the public interest FINMA has in ensuring that its measures remain in place even if an appeal is lodged.

D. Solvency Supervision[16]

75. Solvency requirements appear to be strong, particularly in quantitative areas but also in qualitative aspects. The Swiss Solvency Test (SST) is the backbone of the solvency system, laying out the capital adequacy regime for Swiss insurers and insurance groups and incorporating valuation requirements as well as capital adequacy requirements. The valuation of assets and liabilities for capital adequacy purposes is established in regulation. It is independent of international accounting standards and is carried out on a market consistent basis.

76. The SST was introduced in 2006 and became legally binding on all Swiss insurers in 2011, after a five-year transition period. It has been subject to revisions and refinements in 2015 and 2022. The SST is a sophisticated risk-based capital adequacy regime. It is also a total balance sheet approach which determines the capital resources that an insurer must have to protect policyholders against the risk of the insurer or insurance group's insolvency. An insurer must report its SST to FINMA at least annually (usually by April 30). Effective January 2016, the European Union recognized Switzerland's regulatory and oversight regime regarding private insurers (e.g., Swiss Solvency Test, SST) as equivalent to European law, following a partial revision of the ISO. The equivalence decision recognizes that Switzerland has full equivalence in three areas of Solvency II: solvency calculation, group supervision and reinsurance.

77. The SST ratio is the ratio of risk-bearing capital (available capital) to target capital (required capital). Risk bearing capital is derived from the SST "Net Asset Value" which represents the difference between the market consistent valuation of assets against market consistent valuation of liabilities, based on a prescribed valuation methodology. Market consistent values of assets are obtained either from prices of directly observable assets in markets ("marked-to-market") or, where such market prices are not available, from financial models ("marked-to-model").

78. A recent change in the SST are the more detailed requirements for some debt instruments with risk absorbing characteristics in order to qualify as additional risk-bearing capital or to reduce the target capital in the SST. These instruments have been categorized into two tiers: Tier 1-Instruments must be converted into equity or written-off in case of a Trigger-Event; and Tier 2-Instruments for which payments must be deferred in case of a Trigger-Event. For the effective functioning of risk-absorbing capital instruments (especially tier 2 instruments) in case of serious problems of an insurer their treatment in the determination of insolvency became more precise. The inclusion of these instruments does not appear to have had a major impact on the level of protection provided by the solvency measure. In 2024, the SST of 14 out of the 128 companies (incl. groups) reported Tier 2 capital of CHF 10,500 million (CHF 5,900 million excl. groups). For 7 companies, it is currently of some significance, i.e. the amount of Tier 2 capital is bigger than 10 percent of the insurers risk-based capital and for one insurer it is bigger than 20 percent. All of these insurers comply with regulatory capital requirements by very substantial margins.

[16] The analysis in subsection D has been made with reference to ICPs 14 – Valuation, 15 – Investments, 16 – Enterprise Risk Management for Solvency Purposes, and 17 – Capital Adequacy.

79. The market consistent value of liabilities (including technical provisions) equals the sum of a best estimate and a market value margin (Article 30 (2) of the ISO)**.** The best estimate value is the expected value of discounted future guaranteed cash-flows, based on the relevant risk-free interest rate term structure without any spread-adjustments (Articles 30 and 31 of the ISO). The calculation of the best estimate must be based upon up-to-date and credible information and must not contradict data and information available from liquid markets (Article 25 of the ISO). Only data and information known on the reference date may be used (Article 1(2) of the ISO). The market value margin corresponds to a capital cost provision that is required to fulfil the insurers obligations assuming a capital cost of 6 percent for the entire capital requirement for the entire run-off of the portfolio.

80. Valuation addresses recognition, derecognition and measurement of assets and liabilities. It is taken on a consistent basis and is particularly reliable and decision useful in an insolvency event. Because of market consistency, the valuation of assets and liabilities is an economic valuation on both sides of the SST balance sheet and reflects the risk adjusted present values of cashflows. The value of technical provisions exceeds the current estimate by a market value margin based on the cost of capital and is generally consistent with the Margin Over Current Estimate concept required in ICPs. The value of technical provisions does not reflect the insurers own credit standing and valuation requirements include proper allowance for embedded options and guarantees.

81. Target capital is a measure of the risk to which the insurer or insurance group is exposed to during the next twelve months after the valuation date. The target capital calculation is used to estimate the economic capital required to support the risks on the insurer's books. The risk categories to be considered in calculating target capital are at a minimum - market risk, credit risk, and insurance risk (Articles 9(a) and (b) of the ISA and Article 22 of the ISO). In calculating Target Capital, insurers must use a standard model developed by FINMA that reflects the insurers risk profile, or they must seek FINMA's approval for the use of an internal model. FINMA has published several standard models and accompanying technical documentation for different types of insurance business on its website, e.g. for insurance risk:

- Standard Life Model;
- Standard Non-life Model;
- Standard Health Insurance Model;
- Standard Reinsurance Model; and
- Standard Reinsurance Captive Model.

82. If an insurer's specific risk profile cannot be accurately reflected with a standard model, even with adjustments, the insurer must develop its own internal model (partial or full). The model must meet the general principles of the SST and can only be used with FINMA's approval. FINMA may approve the internal model, or a standard model with adjustments, and might impose capital add-ons to the Target Capital. At present 2 insurance groups use full internal models. Less than 20 insurers use partial internal models for anything but natural catastrophe risks.

83. FINMA ensures the ongoing adequateness of internal models by a combination of annual reviews. This includes material reviews where deep dives on specific topics are carried out. On average, about 8 of such reviews are done per annum and about 10 experts within the risk management function of FINMA are involved in these reviews. Annual reviews of the SST reporting of insurers with internal market risk models are done and benchmarked against the SST standard model. In case the company's scenario set is not capturing relevant macro-economic scenarios, the company will be requested to adjust their model, e.g. by means of the aggregation of an additional scenario to the one year risk capital distribution.

84. An insurer satisfies the SST solvency condition at the reference date (typically December 31) if orderly run-off of business is possible at the end of a one-year period after the SST filing reference date. This assumes that that the insurer has no new business or other revenue sources following the one-year period. Insurers and groups must also report major changes in SST should they occur during the one-year reporting period. The trigger for this reporting depends on the insurers SST level and the size of the change. (e.g., the trigger for insurers with an SST of over 190 percent is 33 percent).

85. Insurance groups must file an SST report at least once a year. There are two approaches to determining group solvency:

- *Consolidated group SST*: The group is modelled under the assumption that the assets and liabilities of all group companies are consolidated in a single, fictional legal entity (consolidated entity); and

- *Granular group SST*: The group is modelled as a network of granular entities with intra-group participations and intra-group transactions between them. A granular entity is a single legal entity of the group or a cluster in the form of a sub-consolidation of several legal entities within the group.

86. For a consolidated entity using the consolidated group SST, the solvency condition is met if the consolidated entity's risk bearing capital is at least equal to the target capital. In the Granular Group SST, the solvency condition for a granular group is met if it is satisfied that for each of the granular entities, risk bearing capital is at least equal to the target capital.

87. For purposes of the SST, assets and liabilities are based on market consistent valuation principles, which are aligned with the objective of protecting policyholders in an insolvency event. A significant improvement over the 2014 assessment is the use of risk-free yield curves to value liabilities and the elimination of some temporary measures that allowed some insurers to deviate from this requirement in special circumstances.

Investments

88. The investment activities of insurers appear to be conservative. The requirements have recently been changed to offer insurers greater flexibility in their investment activities. Requirements for investment activities are defined mainly in ISA as well as the ISO-FINMA. These legislative provisions have been recently revised, with ISA and ISO effective from 1/1/2024, and the ISO-FINMA effective from 1/9/2024.

89. In general, insurer investments are impacted by the regulatory framework in two ways:

- *Implicit requirements from the SST*: while the SST does not set explicit requirements related to the investments of insurance companies, it requires insurers to measure and hold capital against asset risks, including arising from investments. This means that higher risk investments require the insurer to carry more capital than lower risk investments.

- *Explicit investment principles*, applicable for all insurers: All insurers are required to follow general investment principles concerning prudency and specific ones when using derivatives (as stated in the insurance ordinance). Overarching principles related to prudent investments are specified in Art. 69a ISO and principles for derivatives in Art. 100, ISO.

90. Article 69a of the ISO specifies major investment requirements for insurers. The Article requires that insurers:

- Invest their assets in a way that ensures security, quality, liquidity and profitability of the portfolio, and in addition make sure that the location where they are held ensures their availability; and

- Invest assets held to cover liabilities in a way that is adequate to the nature and term of the liability and is in the best interest of the policyholders and beneficiaries.

They are also required to ensure that there is adequate portfolio diversity and undue dependence on any single issuer, group, asset class, market, geographic region, as well as undue risk concentration within the portfolio.

91. Insurers are required to submit their investment plans for tied assets to FINMA. The plans for all assets must be based on a prudent investor approach and consistent with rules related to security, liquidity and diversification. Specially designated assets are required to back insurance policy reserves. These "tied assets" are subject to stricter rules related to security, unencumberedness, netting prohibition, and legal access. An insurance company can apply for and FINMA can approve a list of assets that are suitable for allocation to tied assets. Otherwise, the corresponding investment opportunities are restricted to simple asset classes by the insurance ordinance (Art. 79 ISO). While the specific limits for investments have been broadened with the implementation of the new prudent person approach, FINMA staff indicate that most insurers continue to invest consistently with the previous narrower investment limits.

92. Unless special permission is granted by FINMA, tied assets must be invested as prescribed (Article 79 of the ISO). The specific asset classes include:

- Cash, deposits with a maturity of up to one year and money market investments at banks;
- Bonds issued by borrowers with good credit worthiness;
- Shares, profit participation certificates, participation certificates or share certificates of cooperatives and similar securities, provided they are traded on a regulated market and can be sold in the short term;
- Domestic residential and commercial properties directly owned by the insurance company;
- Derivative financial instruments, insofar as these serve to hedge the value of the corresponding tied assets; and
- Units in collective investment schemes whose investments can be separated and segregated in the event of bankruptcy, be sold at any time, are comprised of investments in the above asset classes and are offered for sale by an appropriate and regulated asset management company.

Enterprise Risk Management (ERM)

93. The insurance law requires insurers and insurance groups to establish ERM frameworks to identify, report and manage insurer and insurance group risks within their risk management systems. Insurer and Insurance Group ERM frameworks are required to provide for all reasonably foreseeable and relevant material risks in an ongoing and integrated manner. They must also include consideration of risk dependencies between risk categories and any specific material concentrations of risk.

94. The risk management framework is required to be proportional to the size, complexity and sophistication of the insurer or insurance group's risk profile. The framework must be appropriate to quantification of risk for risk management, capital management and solvency purposes. The risk management system and internal control system must meet requirements set out in Article 96 of the ISO and the risk management system must be documented in accordance with Article 97 of the ISO which requires description of company-wide risk management and related tasks including:

- Competencies and responsibilities;
- Requirements for risk management;
- Risk policy, including risk-bearing capacity and appetite;
- Procedure for identifying the main risks and presentation of the method, instruments and processes for measuring, monitoring and managing them;

- Presentation of the applicable limit systems for risk exposures and the control mechanisms;
- Internal guidelines on risk management and the associated processes.

95. Group-wide ERM frameworks are required to be consistent as possible across the group's legal entities. For example, Articles 195 and 196 of the ISO apply relevant requirements regarding risk management objectives and content to group entities as well. In addition, regulatory requirements for groups typically focus on group specific aspects that are not relevant at the solo level, while solo entities must meet solo entity requirements. Consideration of intra-group transactions is an important part of group wide ERM frameworks. Article 193 of the ISO defines intra-group transactions and Article 194 sets out specific monitoring requirements. For example, the insurance group must report to FINMA on all important intra-group transactions before they become legally effective. Further details are specified in the ISO-FINMA.

96. ERM frameworks are required to provide for quantification of risk and risk dependencies under a wide range of techniques for risk and capital management. Regarding quantification, Swiss-domiciled insurers and groups must be able to measure their risks. This includes at least (1) insurance risks, (2) market risks, and (3) credit risks (see Article 9a(3) of the ISA) The quantification of further risks according to the company-specific risk situation is carried out as part of the SST. These may include concentration risks, and operational risks, in particular (see Article 43 para. 4 and Article 53b of the ISO). Depending on the specific situation, liquidity risks may also be included in the SST.

97. Operational risks and liquidity risks receive particular attention. The insurance company must identify, assess, monitor and document operational risks and it must evaluate them at least once a year.The insurer must always have sufficient liquidity to meet its payment obligations even in stress situations. It must also submit an annual liquidity planning report to FINMA. Article 98a of the ISO requires insurers to carry out liquidity planning at least as part of its annual capital planning, considering cash outflows from off-balance sheet transactions and other contingent liabilities and adverse scenarios and stress tests to determine its liquidity position. It must also have an emergency concept with effective strategies for dealing with liquidity bottlenecks.

98. Supervision of operational risks and liquidity risks as well as other risks is carried out through off-site and on-site supervision. Insurers are subject to extensive reporting requirements including a detailed biannual governance survey and a biannual internal control survey that can be used to target areas of concern for further examination. The governance survey has a built-in rating system which is used to help identify areas for further follow-up. Regarding liquidity, FINMA conducts liquidity analysis on an annual basis with two different instruments: liquidity reporting and liquidity stress testing. Additionally, on an annual basis market-wide stress-scenarios are defined by FINMA which include a liquidity dimension. These are applied to larger insurance groups (including all IAIGs). The results of these stress-tests are regularly discussed with top management of the participating companies. Over the past three years FINMA did not have to take serious actions against an insurer due to liquidity problems.

99. FINMA requires insurers and insurance groups to perform stress testing to assess the resilience of its total balance sheet. Stress tests are integral part of the SST process. In addition, stress testing is included as part of ORSA requirements (see below). Within the ORSA process the insurer must analyse the impact of various downside scenarios (stress tests) including at least one scenario which could pose an existential threat to the insurer.

100. In accordance with Article 96 of the ISO, ERM frameworks are required to ensure that that business activities are conducted within the insurers risk management framework, including risk appetites, risk limits, and regulatory and economic capital requirements. Regarding insurance groups, FINMA circular 2016/2 sets out minimum requirements regarding communication regarding identification, assessment, control, and monitoring of substantial risk exposures including risk appetite.

101. ERM requirements extend to the following areas:

- Insurer and group ALM policy requirements;
- Investment, requirements including an investment strategy, limits, and rules to ensure compliance;
- Underwriting policy requirements;
- Claims management requirements for insurance groups;
- Reinsurance strategy for insurance groups;
- Requirements for a group wide actuarial policy and actuarial function;
- Requirements for group liquidity reporting, stress testing and requirements for adequate levels of group liquidity levels.

102. As previously indicated, the ERM for insurers and insurance groups includes requirements for Board approved ORSAs to assess the adequacy of their current and likely future solvency position. Under Article 96a of the ISO, the assessment must cover all reasonably foreseeable and relevant material risks to which the insurer or insurance group is exposed during its three-year planning period; its total capital requirement considering its overall risk profile; its compliance with the requirements for technical provisions and tied assets; and the appropriateness and effectiveness of the entities risk management system. Insurance Group-wide ORSAs must also consider the legal and management structures of the group; group-wide economic capital models; risk aggregation; the fungibility of capital and the transferability of assets within the group; and the outputs of the economic capital model and the regulatory capital requirements.

103. Scenario analysis is a major component of ORSA. In addition to the stress tests indicated above, the ORSA must include assessment of the insurers' resilience against macroeconomic stresses through scenario analysis and the ORSA must analyse any material risk concentration in terms of risk categories, risk drivers, types of business, geographical factors, and counterparties.

104. In addition, the results of ORSAs for insurers and insurance groups must:

- Include the entity's total capital requirement based on the overall risk profile, considering the insurer's risk tolerance, business planning and risk minimisation measures (FINMA-Circular 2016/3 no 28);

- Be used in the development of the business strategy and in business planning for the regulated entity including its ability to continue in business (FINMA-Circular 2016/3 no 11);

- Be incorporated into the entities decision-making processes. (FINMA-Circular 2016/3 no 11);

- Assist in group wide recovery planning.

Recommendations

105. The regulations and guidance on risk management should be reviewed to ensure all the requirements in ICP 16 are met. This includes an explicit counterparty risk appetite statement and extending the requirements for underwriting policies in that it addresses any material relationship with macroeconomic conditions.

106. Finalize and implement the requirements for insurers and IAIGs to develop liquidity risk management plans considering ICP 16.9 and CF16.9d. This includes the revision of the FINMA Circular 2013/5 and it comes into force.

107. All IAIGs should have a recovery plan developed and non-IAIGs where a recovery plan should be developed should be identified, and those identified should develop recovery plans.

E. Group Supervision and Cross Border Cooperation[17]

Group-Wide Supervision

108. FINMA establishes group supervision with close cross border cooperation. As previously indicated, insurance groups are a prominent feature of the Swiss market. FINMA currently supervises six insurance groups and one insurance conglomerate, of which five have been identified as IAIGs . FINMA also participates in supervisory colleges for Swiss subsidiary insurers or branches that are part of 11 foreign led insurance groups. Under the ISA, two or more companies form an insurance group if a) at least one is an insurance company; b) they are mainly active in the insurance sector; and c) they form an economic unit or are otherwise linked by influence or control. Insurance conglomerates are defined as cross-sectoral financial groups.

[17] The analysis in this section refers to ICP 23 - Group Wide Supervision, and ICP 25-Supervisory Cooperation and Coordination.

109. The ISA empowers FINMA to place insurance groups and conglomerates under group supervision if the group is managed from Switzerland; or if it is managed from abroad but is not subject to equivalent group supervision requirements there. Group supervision under the ISA comes on top of solo entity supervision. Solo entities of a Swiss insurance group must meet solo entity requirements, and the group entity must meet group requirements. Major legislative powers to supervise groups are found in Articles 65 and 73 of the ISA. Insurance groups must have extensive risk management and internal control systems and maintain separate risk management, compliance, actuarial and internal audit functions at the Group level. They are also required to submit group SST filings.

110. Five Swiss-led IAIGs were identified in 2019 by FINMA using the IAIS criteria for IAIGs. Based on supervisory reporting and in cooperation with other involved supervisors, FINMA reviews the market at least annually to assess which insurers should be identified as IAIGs or insurance groups. FINMA draws on the data provided by insurers under statutory requirements and places the list of the identified IAIGs in the public domain (i.e. FINMA homepage or FINMA's Annual Report). FINMA exchanges information on the IAIG identification process with other relevant supervisors at supervisory colleges and identification as an IAIG includes supervision of all entities in the group.

111. Under Article 192 of the ISO, insurance groups are required to report their legal structure to FINMA each year listing all companies in the group. FINMA may also request more frequent reports. The insurance group must also notify FINMA of the creation, acquisition, or sale of a significant participation by one of the group member companies. FINMA determines what constitutes a significant participation on a case-by-case basis, depending on the size and complexity of the insurance group.

112. FINMA identifies the Head of the IAIG, in consultation with other affected supervisors, and considers both operational and legal control of the entity. The process for determining control is extensive. FINMA also closely considers the risk posed to insurance operations from non-insurance legal entities that are members of the group. Intergroup transactions are closely monitored. Under the ISO, insurance groups must report to FINMA on all important internal group transactions before they become legally effective. In addition, FINMA must receive an annual report on the status of transactions within three months of the annual financial statements. It may also request reporting at shorter intervals.

113. As a group wide supervisor, FINMA has established an extensive network of supervisory colleges for the insurance groups that it leads. FINMA provides the colleges with the reasons and judgements it makes concerning the head of the insurance group (including IAIGs). It also involves other supervisors in determining the scope of group supervision and discusses the supervision of individual group entities. Neither FINMA nor other involved supervisors narrow the scope of group supervision due to a lack of legal authority or supervisory powers over a particular legal entity.

Supervisory Cooperation and Coordination

114. FINMA cooperates and coordinates its activities with other involved supervisors to ensure effective supervision of insurers operating on a cross-border basis. It also discusses and decides with other involved supervisors on who will be the group wide supervisor for cross-border insurance groups. At present, FINMA supervises six insurance groups that have material business outside of Switzerland. Five of these are IAIGs and one is a small insurance group with significant business outside of Switzerland.

115. As a group wide supervisor, FINMA understands the structure and operations of its insurance groups and leads group wide supervision, considering input received from host supervisors. Supervisory colleges and group supervision arrangements for the IAIGs have been in place for several years. For the small insurance group mentioned above FINMA put bilateral arrangements in place in 2023, after discussion with the foreign supervisors on who should be the group wide supervisor and established a supervisory college in 2024.

116. For all Swiss-led supervisory colleges, FINMA and college participants have put in place written cooperation and coordination agreements. These are supplemented by bilateral cooperation agreements if a foreign host supervisor is not a member of a relevant supervisory college. FINMA exchanges assessments and results of group wide supervision with other involved supervisors based on the cooperation and coordination agreements. For all supervisory colleges, FINMA organizes an annual in-person meeting, virtual interim meetings and further ad hoc meetings as required (e.g. as organized during covid). The supervisory colleges are viewed as permanent platforms for cooperation and the exchange of information. Issues discussed at the supervisory college include the strategy of the group, changes in management and organization, financial and solvency results, ORSA results on group and on subsidiary level, liquidity and capital funding, intra-group transactions, major transactions of the group, results of on-site reviews for the group or the subsidiaries, regulatory changes in involved jurisdictions and their impact for the group. FINMA Colleges are inclusive, providing access for supervisors of subsidiaries and branches of supervised group's entities, in case the supervisor's jurisdiction meets the requirements of the coordination agreement, which is in line/based on the IAIS MMoU. Therefore, supervisors of all material entities of all IAIGs are involved in FINMA Colleges. Colleges maintain a joint workplan including the overview of major activities, joint on-sites, information collection (qualitative and quantitative) and joint risk analysis.

117. In the case of Swiss legal entities belonging to foreign insurance groups, FINMA cooperates with the group wide supervisor and other host supervisors. FINMA, however, selects which foreign supervisory colleges to participate based on a risk-based and proportionate approach. The criteria normally considered include the importance of the solo entity in the Swiss market, its interaction with the group and the importance of the Swiss entity for the group. Where FINMA decides not to participate in a particular supervisory college, FINMA always offers bilateral cooperation as an alternative. Where FINMA does actively participate in supervisory colleges including attending virtual and in-person meetings, FINMA shares information, and updates the college on major local insurer developments. It has also engaged in a joint on-site inspection at the Swiss entity with the Group wide supervisor.

118. FINMA has established Crisis Management Groups for all five IAIGs where it is the group wide supervisor. These groups have been in place since 2022 and are part of the work of the IAIG supervisory colleges. CMG members are subset of college members and operate within a specialized team under the college framework. They meet at least annually, and their work is shared with the supervisory college. The supervisory college agreements have been amended to include Crisis Management Group objectives and responsibilities in the annex to the cooperation and coordination agreement. In the event of a crisis, an Emergency Plan includes a list of triggers at both the legal entity level and the group level that would lead to an emergency alert to involved supervisors, the procedure for assessment of the crisis and the procedure for managing the crisis. It also covers public communication. As a host supervisor, FINMA also cooperates with Group wide supervisors in crisis situations mainly through supervisory colleges, but also bilaterally if necessary.

F. Exit From the Market and Resolution[18]

119. The ISA amendments from 2023, which came into force on January 1, 2024, provide increased powers for resolution of insurers and insurance groups. Previous to these new provisions, FINMA had to order bankruptcy as soon as an insurance company got into serious financial difficulties. Restructuring requirements have now been established in law that will enable FINMA, as the liquidation and resolution authority, to restructure an insurance company or insurance group in difficulty, in the interests of policyholders, instead of ordering bankruptcy.

120. The ISA provides a framework for voluntary resolution under Article 60 of the ISA. Under Article 60 an insurance company that wishes to waive its license must submit a resolution plan to FINMA for approval. The insurer must also cease writing new insurance business. The resolution plan must cover the following: the settlement of financial obligations arising from insurance contracts; the funds made available for this purpose; and the person responsible for this task. FINMA reviews the resolution plan considering all measures necessary to safeguard the interests of insured persons. If the plan is approved FINMA monitors it and withdraws the license.

121. The legislation also provides a framework for resolving troubled insurers in a manner that protects policyholder interests and provides for the absorption of losses in a manner that respects the liquidation claims hierarchy. Several powers can be used to protect policyholders. These are outlined in Article 51 of the ISA and include, but are not limited to, the following:

- The power to prohibit the free disposal of the insurance company's assets;
- The power to order the deposit or freezing of insurer assets;

[18] The analysis in this section refers to ICP 12- Recovery and Resolution.

- The power to transfer all or part of the powers vested in the governing bodies of an insurance company to a third party;
- The power to transfer the insurance portfolio and the associated tied assets to another insurance company with the latter's consent;
- The power to order the realization of the tied assets;
- The power to demand the dismissal of the persons entrusted with the overall management, supervision, control or business management or of the general representative(s) and the responsible actuary and prohibit them from exercising any further insurance activity for a maximum of five years;
- The power to remove an intermediary from the register; and
- The power to order the deferral and postponement of the due date.

In addition, Article 52d-52f of the ISA describe how liabilities may be restructured in a resolution scenario.

122. The principle of the resolution framework is that no creditor be worse off than in liquidation (NCWOL). With respect to claims hierarchy, in the case of the absorption of losses, Article 52d of the ISA prevents policyholder claims that are backed by tied assets (e.g., most retail policy holder claims) from being reduced as part of a resolution plan. In the event of a liquidation, policyholders receive a high priority in the liquidation of claims through tied asset provisions, and for those policies that are not backed by tied assets, their general priority relative to other creditors under the law applies.

123. At present, while the amendments to the ISA, have enabled resolution planning requirements for insurers and insurance groups, FINMA has not yet decided which insurance groups will be required to complete resolution plans. FINMA expects that once the determination of which entities require resolution plans is made, a resolution plan is required for an IAIG, established and carried out through CMG infrastructure. In addition, the ISA requires that insurance groups have information systems and processes that allow for implementation and monitoring of resolution plans by the supervisor.

Recommendations

124. FINMA should require and apply resolution plans to the designated groups. FINMA should clearly communicate its expectations to the IAIGs, insurers and insurance groups that will be subject to resolution planning. After the designation, resolution plans should be developed and operationalized as soon as possible.

125. The necessary processes, guidance (internal or published where needed) and tools be developed to complete the comprehensive insurance resolution framework in line with ICP

12 requirements. With the resolution framework only be recently introduced it is important the FINMA internally equip the supervisors with the process, guidance, and tools to be able to effectively supervise this. It would also be helpful if FINMA can publish guidance for the insurers to be clear as the expectations of this framework.