

Circular 2008/30

Solvability I — insurance groups

Solvency I for insurance groups and insurance conglomerates

Reference: FINMA Circ. 08/30 “Solvability I — insurance groups”
 Date: 20 November 2008
 Entry into force: 1 January 2009
 Last amendment: 20 November 2008
 Concordance: previously FOPI Directive directive 13.4/2006 “Solvency I” of 21 November 2006
 Legal framework: FINMASA art. 7 sect. 1 lett. b
 ISA art. 69, 77
 ISO art. 22–36, 39, 198–200, 202, 204, 206

Appendix 1: Calculation sheet for the solvency of insurance groups
 Appendix 2: Calculation sheet for the solvency of insurance conglomerates

Addressees																					
BA			ISA			SESTA		CISA						AMLA			Other				
Banks	Financial groups and -congl.	Other intermediaries	Insurers	Insurance groups and -congl.	Insurance intermediaries	Stock exch. and participants	Securities dealers	Fund management companies	SICAVs	Limited partnerships for CISs	SICAFs	Custodian banks	Asset managers CISs	Distributors	Representatives of foreign CISs	Other intermediaries	SROs	DSFIs	SRO-supervised institutions	Audit firms	Rating agencies
				X																	

I. Introductory remarks	Margin no.	1–6
II. Purpose	Margin no.	7
III. Scope of application	Margin no.	8
IV. Terminology	Margin no.	9–19
A. Solvency I	Margin no.	9–11
B. Required solvability margin	Margin no.	12–13
C. Available solvability margin	Margin no.	14–16
D. Accounting requirements	Margin no.	17–18
E. Reporting	Margin no.	19
V. Calculation principles	Margin no.	20–31
A. Interim (half-yearly) calculation of Solvency I	Margin no.	20
B. Determination of Solvency I for insurance groups	Margin no.	21–26
a) Calculation of the required solvability margin	Margin no.	21–23
b) Calculation of the available solvability margin	Margin no.	24–26
C. Determination of Solvency I for insurance conglomerates	Margin no.	27–31
a) Calculation of the required solvability margin	Margin no.	28–30
b) Calculation of the available solvability margin	Margin no.	31
VI. Minimum reporting requirements	Margin no.	32–35
A. Form of reporting	Margin no.	32–34
B. Change to the calculation approach	Margin no.	35
VII. Initial submission and submission deadlines	Margin no.	36–39
A. Initial submission	Margin no.	36–38
B. Periodic reporting	Margin no.	39
VIII. Appendices	Margin no.	40

I. Introductory remarks

This Circular sets out the minimum requirements for the calculation and reporting of the required and available Solvency I for insurance groups (groups) and insurance conglomerates (conglomerates) for submission to the responsible supervisory authority. 1

This Circular is based on art. 69 of the Insurance Supervision Act (ISA; SR 961.01) and art. 198 to 200 of the Insurance Supervisory Ordinance (ISO; SR 961.011) for groups and on art. 77 ISA and art. 204 and art. 206 ISO for conglomerates with respect to the choice of method, calculation, and the required and available solvability margin. The specification of the manner of reporting to FINMA is based on art. 202 ISO. 2

According to art. 198 and art. 204 ISO, the solvency of groups and conglomerates must also be evaluated according to the two methods set out in art. 22 ISO. This Circular refers exclusively to the first method pursuant to art. 22 sect. 1 lett. a ISO, "Solvency I, determination of the required equity capital taking into account business volume (required solvability margin) and eligible equity capital (available solvability margin)". 3

According to art. 199 sect. 1 ISO, the *required* solvability margin of a group must be calculated on the basis of the consolidated financial statement. According to sect. 2, the required solvability margin corresponds to the sum of the required solvability margins for the individual business lines such as life insurance, non-life insurance, reinsurance, etc. According to sect. 3, the business area-specific solvability margins of a group are calculated *mutatis mutandis* in accordance with art. 23 et seq. ISO. According to sect. 4, FINMA may permit other calculation methods or exclude certain undertakings of a group/conglomerate. 4

According to art. 200 sect. 1 ISO, the *available* solvability margin of a group pursuant to a financial statement prepared in accordance with internationally recognised accounting standards corresponds to the consolidated equity capital, adjusted by any minority-shares, all intangible assets, anticipated dividends and repayments of capital, and deferred acquisition costs in non-life. Other equity capital-like elements may be permitted by FINMA upon application. Pursuant to sect. 3, FINMA will determine the eligible equity capital if no internationally recognised accounting standard is used. 5

According to sect. 204 ISO, art. 198 and art. 200 ISO are applicable *mutatis mutandis* when calculating the required and available solvability margin for conglomerates. The same applies to art. 202 ISO with respect to reporting. The specific differences applicable to conglomerates are governed by art. 206 ISO. Pursuant to art. 206 sect. 1 ISO, the calculation of the *required* solvability margin of a conglomerate is to be based on the consolidated financial statement. According to sect. 2, the required solvability margin corresponds to the sum of the required solvability margins in the insurance and finance business areas as well as of the solvability margins for undertakings not subject to any regulatory capital adequacy requirements applicable to the finance business area. For the latter, FINMA will determine the calculation of the solvability requirement. Art. 206 sect. 4 lett. b enables FINMA to exempt undertakings not subject to regulatory supervision from capital adequacy requirements where inclusion would be inappropriate or misleading. 6

II. Purpose

Solvency I serves to demonstrate that the minimum capitalisation of a group / conglomerate is sufficient relative to its business volume. 7

III. Scope of application

This Circular applies to all groups/conglomerates that have been placed under regulatory supervision by means of an order pursuant to the following legal foundations: 8

- insurance groups: pursuant to art. 65 ISA;
- insurance conglomerates: pursuant to art. 73 ISA.

IV. Terminology

A. Solvency I

Pursuant to art. 22 ISO, the evaluation of solvency is performed on the basis of 2 methods: Solvency I and the Swiss Solvency Test. Solvency I refers to the ratio of the required equity capital as determined by the business volume (required solvability margin) to the eligible equity capital (available solvability margin). 9

FINMA considers Solvency I of a group/conglomerate to be sufficient if at least 100% of the required solvability margin is covered by the available solvability margin. 10

Appendix 4 "Intervention thresholds" of FINMA Circ. 08/44 "SST" governs the measures arising from this calculation and, where the solvability of a group or conglomerate is less than 150%, provides for intensified monitoring by FINMA. 11

B. Required solvability margin

The *required* solvability margin of a *group* is calculated on the basis of the group's consolidated financial statement and corresponds to the sum of the required solvability margins for the business lines life insurance, non-life insurance, and reinsurance, plus the group undertakings not subject to any capital adequacy requirements under supervisory law. All consolidated group undertakings must be included in the calculation of the required solvability margin applicable to a group. As to consolidated group undertakings not subject to capital adequacy requirements under supervisory law, FINMA will determine the calculation method to be applied to the solvability margin. 12

By the same token, the *required* solvability margin of a *conglomerate* is calculated on the basis of the conglomerate's consolidated financial statement. It corresponds to the sum of the required solvability margins in the insurance business area, plus the required solvability margins in the finance business area and of undertakings not subject to the regulatory capital adequacy requirements of the finance business area. As to undertakings not subject to any regulatory capital adequacy requirements of the finance business area, FINMA will determine the calculation method to be applied to the required solvability margin. 13

C. Available solvability margin

The *available* solvability margin of *groups* is calculated on the basis of a financial statement prepared in accordance with internationally recognised accounting standards. In principle, the 14

result of the following calculation is considered to constitute the eligible equity capital:

Reported consolidated equity capital
 plus minority-shares
 plus subordinated loans and hybrid instruments approved upon application with FINMA
 plus equity capital-like elements approved upon application with FINMA
 minus all intangible assets
 minus anticipated dividends and repayments of capital
minus deferred acquisition costs in non-life
 Eligible equity capital

The same conditions apply to financial statements prepared in accordance with nationally recognised accounting standards. 15

As to the available solvability margin of conglomerates, the same conditions apply as to groups. 16

D. Accounting requirements

A financial statement prepared in accordance with internationally recognised accounting standards must be used for the calculation of Solvency I. The International Financial Reporting Standards (IFRS) and the United States Generally Accepted Accounting Principles (US GAAP) are considered internationally recognised accounting standards. 17

The Swiss expert recommendation on accounting (Swiss GAAP FER), which is also used nationally, may be classified as equivalent to the IFRS by FINMA upon application, where the necessary components for calculating the required and eligible equity capital on a consolidated basis are shown separately. 18

E. Reporting

The calculation of the required and available solvability margin for groups and conglomerates is to be performed half-yearly. It constitutes Group/Conglomerate Solvency I and must be submitted to FINMA within three months of the year-end or interim reporting date. Appendices 1 and 2 of this Circular are to be used. 19

V. Calculation principles

A. Interim (half-yearly) calculation of Solvency I

Whereas the calculation of solvency to be submitted as at the end of the year is to be based on the audited, consolidated annual statements (income statement and balance sheet), an estimate of the relevant basic data on an annual basis is necessary for calculating the required solvability margin for the half-yearly report. The company must show to FINMA separately the method used by it to perform the estimate. As to the available solvability margin, however, the consolidated figures of the interim balance sheet may be used in analogy to the annual balance sheet. 20

B. Determination of Solvency I for insurance groups

a) Calculation of the required solvability margin

Consolidated figures: 21

To calculate the solvability margin in terms of art. 199 ISO, the relevant consolidated figures for the three individual main business lines life insurance, non-life/health insurance, and reinsurance must be made available. The required solvability margin for these three main business lines is then calculated in accordance with the supervisory requirements of art. 23 to art. 36 ISO. When calculating the reinsurance quotient, only the reinsurance ceded to companies external to the group is eligible.

Reinsurance business: 22

Only accepted reinsurance business is considered relevant reinsurance business in the context of an insurance group. Reinsurance accepted within the group is not counted. Calculation of the required solvability margin follows from art. 23 to art. 36 ISO.

Undertakings not subject to capital adequacy requirements under supervisory law: 23

In the case of undertakings not subject to capital adequacy requirements under supervisory law in the context of an insurance group, the required solvability margin is currently 0% of the net assets.

b) Calculation of the available solvability margin

In order to achieve the greatest possible uniformity, the following list specifies the eligible and non-eligible elements for calculating the available solvability margin. 24

The following are eligible: 25

1. Consolidated equity capital: This is the consolidated equity capital reported on the basis of a financial statement prepared in accordance with internationally recognised accounting standards.
The same conditions apply to financial statements prepared in accordance with nationally recognised accounting standards.
2. Minority-shares: Minority-shares are added where they are not contained in the consolidated equity capital.
3. Other equity capital-like elements are eligible:
 - a. Subordinated loans and debentures and hybrid instruments according to art. 200 sect. 2 ISO upon application with FINMA, where they meet the conditions set out in art. 39 ISO. The application submitted to FINMA must be accompanied by proof of compliance with these conditions. The relative limits set out in art. 39 sect. 2 ISO apply to the hybrid instruments of a group.
 - b. Acquired present value of future profits (PVFP): The present value of future profits from acquired insurance contracts (PVFP on newly acquired portfolios included in the purchase price) is eligible in analogy to the limits specified by the EU.
 - c. The following assets may, upon application to FINMA accompanied by a justification, be eligible for solvability purposes where they have not already been reported as eq-

uity capital pursuant to IFRS/US GAAP.

They include in particular:

- i. Dividends to policyholders not individually allocated in life insurance.
- ii. Hybrid capital in terms of mandatory convertible securities that must be converted into share capital by a certain time, but that currently have not been or only partially converted into share capital.
- d. Upon application, FINMA may permit the use of other equity capital-like elements as provided for in art. 200 sect. 2 ISO. It will decide on their eligibility upon application.

The following are not eligible or must be deducted:

26

1. The following intangible assets must be deducted if they have already been included in the determination of the equity capital:
 - a. Goodwill from acquisitions.
 - b. PVFP in the form of the present value of future profits arising from insurance contracts concluded within the group/conglomerate (PVFP on own portfolios).
 - c. Trademarks, licenses, copyrights, and other intellectual property rights accounted for as assets.
 - d. Internally developed computer programs (software) with limited market value accounted for as assets and externally purchased programs with minor resale value accounted for as assets.
 - e. Tax credits from earlier losses carried forward.
2. Anticipated dividends and repayments of capital (including minority-shares): These include reductions of the face value or other transactions with the same aim of capital reduction. Anticipated dividends and analogous elements must therefore already be deducted from the equity capital as a precautionary measure at the time of application to the annual general meeting.
3. Deferred acquisition costs in non-life: Since only the legally reclaimable acquisition costs in the context of surrender value in life insurance are permissible under Solvency I, the deferral effects of multi-year acquisition costs in non-life insurance (P&C insurance, health insurance, reinsurance) already included in the equity capital must be deducted.

C. Determination of Solvency I for insurance conglomerates

Pursuant to art. 204 ISO, art. 198 ISO and art. 200, 202 and 203 ISO — applicable to the Solvency I of insurance groups — also apply with respect to insurance conglomerates.

27

a) Calculation of the required solvability margin

In the case of insurance conglomerates, calculating the required solvability margin is done by considering the insurance and finance business areas and undertakings not subject to capital adequacy requirements under supervisory law separately using the building-block approach. All companies predominantly or entirely contributing to the insurance business area are to be included in the insurance business area. Companies that cannot be clearly classified are to be included in the insurance business area as well.

28

The calculation for the insurance business area of an insurance conglomerate is based on art. 198 to art. 199 ISO and the foregoing provisions of this Circular with respect to the required solvability margin of insurance groups.

29

For the finance business area, the calculation pursuant to art. 206 sect. 3 ISO on the basis of internationally or nationally recognised accounting standards applies. The required solvability margin in the finance business area corresponds to the capital adequacy requirements applicable to this business area. FINMA will establish which principles are to be applied. 30

b) Calculation of the available solvability margin

The foregoing provisions concerning the calculation of the available solvability margin of insurance groups also apply to insurance conglomerates. 31

VI. Minimum reporting requirements

A. Form of reporting

For Solvency I of the group/conglomerate, the following reports must be submitted together with the relevant report elements: 32

- Reporting schema for insurance group XY → Appendix 1
- Reporting schema for insurance conglomerate XY → Appendix 2

The purpose of reporting is to explain the different elements of the required and available solvability margin in detail and to present the figures over three half-yearly periods at minimum, e.g. current period, six months prior, twelve months prior. 33

Changes to the calculation method used and to the required or available solvability margin must be presented and explained in a reconciliation note. Changes to the basis for calculation such as the calculation methods, shifts in asset and liability items, etc., must be shown and presented in a reconciliation note. 34

B. Change to the calculation approach

Where an insurance group or conglomerate wishes to change its calculation approach, it must submit a justified application to FINMA containing the reasons for the changes and showing the effects as compared to the previous approach. These changes are subject to approval. 35

VII. Initial submission and submission deadlines

A. Initial submission

The solvency calculation must be submitted for the first time subsequent to the order placing the group or conglomerate under regulatory supervision. 36

A reconciliation table must be submitted to FINMA as part of the first report on Solvency I. This table must present the individual data points in detail and explain the source of the consolidated figures and show in detail how the required and available solvability margins were calculated. Any adjustments to consolidated figures must also be shown. 37

FINMA will comment in writing on the reconciliation table submitted prior to officially approving 38

the calculation approach. However, approval of the approach does not confirm the correctness of the overall calculation.

B. Periodic reporting

The required report must be submitted to FINMA simultaneously in writing and in electronic form in accordance with art. 202 ISO twice a year within three months of the reporting date for the annual or interim financial statement. FINMA may extend this deadline upon a justified application. 39

VIII. Appendices

The reporting schema for Solvency I is contained in Appendices 1 and 2. 40