Technical provisions

Technical provisions are vitally important in all areas of the insurance industry. In 2013, FINMA again paid particularly close attention to those provisions, especially in the context of life insurance.

FINMA measures the economic strength of every insurance company on the basis of two key factors. On the one hand, solvency indicates the level of an insurer's equity capital, measured using the Swiss Solvency Test (SST) over a one-year horizon. On the other hand, technical provisions are there to secure the obligations arising from insurance contracts continuously and over the long term.

In order to protect policyholders, it is essential to have sufficient disposable and unencumbered assets, referred to as tied assets, to cover all technical provisions for the full term of the contract. In other words, the level of technical provisions determines the amount of tied assets which would be used to satisfy claims arising from insurance contracts if an insurance company became insolvent.

Life insurers may face gaps in cover

Life insurers offer guarantees that extend over several decades. If, for example, young customers purchase a contract for a retirement pension, they will pay premiums right up to the date of retirement, after which the insurance company will pay them a pension until life's end. The premium and pension amounts are defined when the contract is signed and cannot, as a rule, be changed for almost half a century. The length of this period makes it impossible to factor in all the contingencies that may arise, such as longer life expectancy or an unusually long phase of low interest rates.

Especially in the case of Pillar 2 plans with a statutory pension conversion rate, the current level of actuarial reserves has long been insufficient to fund the new pensions that have to be paid out each year. Insurance companies close this financing gap by cross-financing using premiums from high-margin death and disability risk contracts and other sources. In the long term, however, the gap in cover will continue to grow, posing a major challenge for life insurers.

FINMA is aware of this problem and paid particularly close attention to it in its oversight of life insurers' technical provisions in 2013. If insurers cannot meet their obligations, FINMA intervenes and instructs the life insurer in question to increase its technical provisions.

No general need for action in non-life insurance

In 2013, FINMA reviewed the processes used by a number of non-life insurers to form technical provisions and also calculated the provisions needed to cover required technical reserves. Findings from these analyses fortunately indicate a need for making changes only in a few exceptional cases. Claims frequency in the private client sector is relatively steady.

Major significance of ageing provisions in supplementary health insurance

In supplementary health insurance, insurers generally waive their right of termination in the event of a claim. This leads to insurance contracts that run for an entire lifetime. Depending on the policyholders' enrolment age, on which the rates are based, the company must accrue technical provisions, referred to as ageing provisions, in advance. These are vitally important, and FINMA therefore has a special focus on them, especially by analysing the technical section of the business plan for every product. In addition, FINMA demands that technical provisions that are no longer required should be paid out to the insured persons who financed them.

More frequent controls in reinsurance

Reinsurance often covers the whole spectrum of the insurance business, a fact that is reflected in provisions. As of the 2013 accounting year, FINMA will have better information on provisions in the following year because FINMA Circular 2011/3[32] requires insurance companies to break down their overall portfolio into sub-portfolios. As with the other insurance sectors, FINMA is paying increasingly close attention to provisions in the reinsurance sector. On the one hand, it reviews specific sub-portfolios systematically at predetermined intervals; on the other, it examines special transactions, for example when significant dividends are paid out.

[32] See FINMA Circular 2011/3 'Provisions in reinsurance' (German version) (http://www.finma.ch/d/regulierung/Documents/finma-rs-2011-03-d.pdf).