Overview of insurance companies

Insurance supervision in 2014 was largely determined by persistently low interest rates and international developments. Despite low interest rates, most insurers were adequately solvent without having to rely on temporary SST relief measures. At the international level, FINMA contributed to developing the new IAIS standards, while at the national level it concentrated on reviewing technical provisions and associated processes of the insurers.

The persistent phase of low interest rates continues to pose major challenges for the insurance sector. Life insurers, in particular, are increasingly investing in asset classes that offer higher ongoing returns. FINMA is observing this trend closely and paying special attention to the behaviour of insurers in the real estate and mortgage sectors.

Under the Financial Sector Assessment Program (FSAP)[40], the International Monetary Fund rated the stability of the Swiss insurance market, along with its regulations and supervision, as generally positive. The FSAP audit led to valuable recommendations which are being used to develop the regulatory and supervisory framework. Their implementation will meet some of the requirements placed on Swiss insurance supervision as regards achieving equivalence with EU Solvency II regulations.[41] This will lead to amendments to current supervisory instruments and the introduction of new instruments (e.g. Own Risk and Solvency Assessment [ORSA]), as well as new disclosure obligations.

In view of global developments and the planned introduction of the Insurance Capital Standard (ICS) for internationally active insurance groups (IAIG)[42], FINMA has intensified its activities across the board at international level. In particular, it has expanded its relationships with Supervisory Colleges[43] for international groups, which have developed into valuable platforms for information exchange among participating supervisory authorities.

Adequate technical provisions, which are essential when it comes to protecting policyholders in Switzerland and abroad, also form the basis for determining the total amount of tied assets that must be held. In view of the challenging market environment, FINMA has been monitoring that technical provisions are calculated correctly and that the total target amount of tied assets is covered at all times.

Life insurance: diverging trends among individual companies

Most life insurers managed to maintain a generally stable economic situation, despite further declines in interest rates in 2014. At the same time, a number of trends could be observed from one company to the next. The challenges facing management, in particular with regard to risk management, have heightened significantly in view of current market circumstances. Insurers must be able to meet their long-term obligations, some of which include high guarantees, even in very unfavourable market conditions. In such an environment, inadequate risk management processes may lead to serious balance sheet effects which could ultimately compromise the interests of policyholders. This poses particular challenges for very small life insurers who find it difficult to manage their risks adequately, not least because of their limited resources. FINMA is monitoring trends in this sector very closely.

Non-life insurance: good profitability

Four new branch offices of foreign insurance companies were approved in 2014.[44] Two small non-life insurance companies[45] were released from supervision, and the insurance portfolio of one of the companies was transferred to Swiss Re.

The results of non-life insurers were positive in 2014, with an average combined ratio[46] of 94%. Reviews of technical provisions revealed solid reserves among insurance companies across all insurance classes. With respect to solvency, non-life insurers also have a very good average SST ratio of 193%.

[40] See "Evaluation of the financial centre in Switzerland", p. 22.

[41] See Glossary, p. 115.

[42] See "FINMA and international standard-setting bodies", section on International Association of Insurance Supervisors, p. 18.

[43] See Glossary, p. 115.

[44] ERGO Insurance Group, Düsseldorf, Zurich branch office; Euler Hermes SA, Brussels, Wallisellen branch office; European Mutual Association for Nuclear Insurance, Evere (Brussels), Zug branch office; UNIQA Österreich Versicherungen AG, Vienna, Zurich branch office.

[45] NBM-Amstelland Insurance Company AG and Switzerland General Insurance Company Ltd (portfolio transfer).

[46] See Glossary, p. 113.

Supplementary health insurance: effects of new hospital financing confirmed

In 2013, FINMA reported on the consequences of the new hospital financing scheme,[47] which was introduced on 1 January 2012 and led to a fall in insurance premiums. Using current figures, FINMA reviewed the effects in detail in 2014. The cost savings announced in 2013 have been confirmed, especially the long-term effects on basic insurance plans (general ward) for all of Switzerland. In the case of semi-private and private hospital plans, some of the savings were cancelled out by inflation. FINMA required some insurers to reduce their rates again for general ward cover for all of Switzerland.

In its evaluation of technical provisions, FINMA's focus in the health insurance sector in 2014 was primarily on longevity risks and accident insurance. FINMA used on-site supervisory reviews and intensified supervision to look in depth at corporate insurance and business practices involving discounting.

Reinsurance: solid financial situation in an increasingly difficult market environment

In 2014, two new medium-size reinsurance companies were licensed.[48] One reinsurance captive[49] was released from supervision, and one reinsurer was acquired by a non-life insurer through a merger.[50]

The international market environment remains difficult. Few catastrophe claims, excess capacity in the reinsurance market and an increasing shift of capital to the securities market (for instance, catastrophe bonds) are having a generally negative effect on the reinsurance business. Nevertheless, the general financial situation of reinsurers in Switzerland can be considered solid.

The US-based National Association of Insurance Commissioners (NAIC) recognised Switzerland and six other countries as a qualified jurisdiction for reinsurance supervision. This can be seen as positive for Switzerland as a reinsurance centre because conditions are now in place whereby reinsurance companies from Switzerland can benefit from relaxed provisions and will no longer have to rely solely on their contracts with their US insurers as a means of securing their reserves.

Planned changes in reporting for insurance companies

Regulatory requirements for insurance companies have tightened in recent years. Since the financial crisis, FINMA has increased its emphasis on the information and disclosure obligations of market participants in order to assess risks more efficiently and take appropriate action at an early stage. In view of this, a project has been launched to examine the reports currently submitted to the supervisor. The goal of the project is to involve the insurance industry in revising the content and structure of supervisory reporting. The project will also address the issue of equivalence in the international environment.

[47] See FINMA Annual Report 2013, "Effects of the new hospital financing scheme", p. 56 f.

[48] Coface Re SA and Ikano Re Ltd.

[49] SRV REINSURANCE COMPANY SA.

[50] XL Insurance Switzerland Ltd acquired Vitodurum Reinsurance Company Ltd.