

Press release

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Changes to insurance regulation:

Consultation on ISO-FINMA and FINMA circulars; update on SST adjustments

The Swiss Financial Market Supervisory Authority FINMA is submitting for consultation a revision package, including a partial revision of the FINMA Insurance Supervision Ordinance (ISO-FINMA) and a series of FINMA circulars. These implement the revised Insurance Supervision Ordinance (ISO), which the Federal Council brought into force on 1 July 2015, in the subordinate regulations. FINMA also announces that the SST temporary adjustments granted in 2012 will expire at the end of 2015 and will not be renewed. However, some of the adjustments will be incorporated into permanent regulation.

The Federal Council brought the revised Insurance Supervision Ordinance (ISO) into force on 1 July 2015. The revision was instrumental in securing the European Commission's recognition of the Swiss insurance supervision system's equivalence with the EU's Solvency II Directive on 5 June 2015 (see [link](#)). The revision package is designed to bring ISO-FINMA and the FINMA circulars into line with the revised ISO. FINMA will also be issuing two new circulars. The consultation period runs until 19 August 2015, while the circulars are scheduled to come into force on 1 January 2016.

ISO-FINMA

The revised ISO-FINMA stipulates a minimum structure of the balance sheet and income statement and a presentation of business activities in the annual financial statements to take better account of the specifics of the insurance business and improve transparency regarding the financial situation of insurers.

Two new circulars

The revision package contains two new circulars. These are derived directly from the revised ISO and establish equivalence with the EU rules:

- **FINMA Circular 2016/XX “ORSA”** sets out the basic rules for insurers to carry out an “Own Risk and Solvency Assessment” (ORSA). This requires them to compile an overall picture of the company from a forward-looking perspective, including details of the risk situation, capital adequacy and the relationships between risk and capital.
- **FINMA Circular 2016/XX “Disclosure”** provides for the public disclosure of comparable and relevant information to facilitate comparisons, increase transparency and so improve protection for policyholders.

Need for changes to current circulars, opportunity for streamlining

The ISO revision also necessitates changes to current circulars. FINMA has taken the opportunity to streamline and simplify some aspects of regulation and combine a number of circulars.

- **FINMA Circular 2016/xx “Investment guidelines – insurers”** is significantly reduced in scope and restructured. There are a number of content changes. In particular, the investment options open to insurers have been specifically extended to include private debt, senior secured loans and commodities. Infrastructure investments are incorporated for the first time, while insurance-linked securities and gold bars can now be allocated to tied assets.
- **FINMA Circular 2016/xx “Insurance groups and conglomerates”** combines four existing circulars (2008/27 “Organisation – insurance groups”, 2008/28 “Structure – insurance groups”, 2008/29 “Internal business transactions – insurance groups” and 2008/31 “Insurance group reports”) into one and also integrates the FINMA guidelines on group or conglomerate supervision of insurance companies to create a standardised regulatory framework in this area. FINMA Circular 2008/30 “Solvency I – insurance groups” is repealed in its entirety.
- **FINMA Circular 2016/xx “Life insurance”** combines two current circulars (2008/39 “Unit-linked life insurance” and 2008/40 “Life insurance”). The key changes relate to aspects of tariff rating, biometric risk requirements and tariff rating models and principles, as well as the technical interest rate.
- Minor changes and editorial changes have been made to a small number of other FINMA circulars.

“SST adjustments” circular expires

The circular on temporary adjustments to the Swiss Solvency Test (2013/02 “SST adjustments”), which was limited to three years, expires automatically on 31 December 2015. FINMA’s Board has decided not to extend or replace it. However, some of the temporary adjustments included in the circular will be incorporated permanently into the existing Circular 2008/44 “SST”. They relate to the intervention threshold approach, which defines how, and how fast, companies are required to act when certain threshold values are undershot. The adjustment gives them longer, permanent rather than temporary deadlines for restoring compliance with the thresholds.

However, the temporary option in the circular to value insurance obligations using a yield curve subject to counterparty credit risk will cease to apply. The Federal Council believes that valuation should in principle be carried out using a risk-free yield curve. Given the distinct possibility that interest rates will

remain low for an extended period, further temporary measures in this area can no longer be justified. The importance of this measure has progressively declined since its introduction. As of 1 January 2015, it improved the SST ratio across the market as a whole by only a few percentage points. Despite further reductions in interest rates since 2013, overall solvency in the market has also improved even without allowing for the temporary adjustments, thanks to measures taken by insurers to reduce risk and strengthen capital.

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