Eidgenössische Finanzmarktaufsicht FINMA
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Contact:
Tobias Lux, Spokesperson
Phone +41 (0)31 327 91 71
tobias.lux@finma.ch

Vinzenz Mathys, Spokesperson
Phone +41 (0)31 327 19 77
vinzenz.mathys@finma.ch

FINMA examines life insurers' sample calculations

Transparency and information provided when concluding life insurance policies are often insufficient. This is the finding of the Swiss Financial Market Supervisory Authority FINMA based on its market analyses. Through its revision of the ISO, the legislator has demonstrated its commitment to transparency. FINMA is therefore reiterating its expectations of insurers to provide future policyholders with a more realistic basis for decision-making. FINMA will increase its supervisory activities in this area.

In accordance with FINMA requirements, quotes for unit-linked and traditional life insurance policies contain sample calculations for three scenarios (see box below). These are intended to enable policyholders to assess the risks and possible future returns of the life insurance products concerned. The sample calculations are therefore key information in deciding whether to purchase the policy in question.

In 2020, FINMA launched a broad survey of life insurers on the information provided to clients when selling life insurance policies. FINMA subsequently carried out on-site reviews at all major providers. In total, FINMA looked at data from more than 85,000 life insurance policies concluded between January 2020 and March 2021. FINMA found that transparency when concluding life insurance policies was often insufficient.

Overly optimistic in over 90% of cases

More than 90% of the sample calculations examined by FINMA showed (in some cases far) too optimistic yield developments. This is especially true for the so-called unfavourable scenario. The unfavourable scenario is intended to show the client what the return on the life insurance product could be at the maturity of the policy in the event of poor investment results. Even assuming a poor investment performance, the insurers reported values that were far above the risk-free return during the period under review. In some cases, the annual yield assumptions for poor performance were 3.5%, with negative risk-free returns over the period even for longer-term ten-year investments. Such sample calculations can raise unrealistic expectations among clients, both in terms of the security of the investment and the profit potential when the life insurance policy matures.

The returns are also reduced by the often high administrative and acquisition costs that are incurred for life insurance products.

Complaints from affected persons

FINMA’s investigation also showed that approximately 8% of clients who took out unit-linked insurance policies without a guarantee with a term of 10 to 11 years between 2010 and 2011 earned less than the risk-free return on their savings portions of the premiums. This shows that policyholders must expect investment results below the risk-free return even in the event of a positive development on the financial markets.

Specific complaints about surrender values and maturity payments for unit-linked insurance policies illustrate that, in reality, policyholders can even suffer losses of up to 50% of the premiums paid in with their investments.

Life insurance policies are not funds

There are significant differences between a life insurance policy with unit-linked investment and an investment in a fund without life insurance. With a life insurance policy, the policyholders are bound to a fixed maturity date of the policy. The policyholders can therefore only cancel the policy early with additional costs. Another difference to funds is that in the case of life insurance policies, the policy can only be renewed by taking out a new contract. Both are associated with considerable costs. It is therefore crucial what the market environment is like when the life insurance policy matures. If the maturity date falls at a time when the markets are developing negatively, returns from good previous years can be wiped out.

Sample calculations anchored in the ISO

Through the revision of the Insurance Supervision Act (ISA) and the Insurance Supervision Ordinance (ISO), the legislator is seeking to strengthen Switzerland as a location for insurance and in particular also improve client protection. The revised provisions will enter into force on 1 January 2024 with transitional periods. They also contain specifications for the sample calculations. For example, it is now explicitly stipulated at the ordinance level that attention must be drawn to the risks and chances of profit in a transparent and comprehensible manner when a client is taking out a life insurance policy. FINMA had advocated greater transparency in the regulatory process on the basis of its supervisory findings.

Birgit Rutishauser, Head of FINMA’s Insurance division, comments: “Through the revision of the ISA and ISO, the legislator has clearly demonstrated its commitment to a client protection-based regulatory and supervisory approach. One example is the transparency and information requirements when concluding a life insurance policy. Future policyholders are making a far-reaching decision here that can have a decisive influence on their pension provision in old age. Therefore, it is important and right that they can make this decision on an informed and transparent basis – including as regards an unfavourable course of the investment. This is what insurers now need to guarantee."

FINMA's expectations

The revision of the ISO that has now been adopted confirms FINMA's existing supervisory practice. This prompted FINMA to once again write to life insurers asking them to make swift adjustments so that clients can conclude new contracts in compliance with the transparency and information requirements.

FINMA will review the insurers' future handling of sample calculations as part of its supervision. It will pay particular attention to whether the insurers make the negative scenario sufficiently transparent for their future clients.

Sample calculations in life insurance

What are sample calculations in life insurance?

A sample calculation uses a concrete example of a possible future capital market development to show what benefits policyholders could receive. The sample calculations include a favourable, an average and an unfavourable scenario to show policyholders the risks and associated potential returns of life insurance products. The specifics of the contract and aspects such as age and gender of the policyholder need to be taken into account.

What is an unfavourable scenario?

In the unfavourable scenario, an unfavourable capital market development is assumed. The associated sample calculation is intended to give policyholders an idea of the benefits they can expect if things do not go well on the capital markets. However, the unfavourable scenario is not to be confused with the worst possible case.

What is the risk-free return?

The risk-free return is the return that an investor receives when buying a Swiss government bond, for example. It is considered risk-free because it is practically certain that the Swiss Confederation will pay the agreed interest and that the investor will get back the amount invested at the end, as agreed.