Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

Circular 2013/05
Liquidity - Insurers

Principles for recording liquidity risks and liquidity reporting for insurers

Reference:	FINMA Circ. 13/05 “Liquidity – Insurers”
Date:	5 December 2012
Entry into force:	1 January 2013
Last amendment:	3 December 2015 [Modifications are indicated by an asterisk (*) and are listed at the end of the document.]
Legal framework:	FINMASA Article 7 para. 1 let. b ISA Articles 22 and 25 ISO Articles 96-98, 195-196, 204

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 mgmt.. companies	SICAVs	Limited partnerships for CISs	SICAFs	Custodian banks	Asset managers CISs	Distributors	Reps. of foreign CISs	Other intermediaries	SROs	DSFIs	SRO-supervised institutions	Audit firms	Rating agencies
			X	X																	

Laupenstrasse 27, 3003 Bern
Tel. +41 (0)31 327 91 00, Fax +41 (0)31 327 91 01
www.finma.ch

Index

I. Purpose

The purpose of this circular is to set out the supervisory provisions on risk management in supervised insurance companies, insurance groups and insurance conglomerates with respect to liquidity (Art. 22 of the Insurance Supervision Act [ISA; SR 961.01]; Arts. 96-98, 195-196 and 204 of the Insurance Supervision Ordinance [ISO; SR 961.011]). Under Article 22 para. 1 ISA, insurance companies must be organised in such a way as to enable them to record, limit and monitor all essential risks in particular. Subsequently, liquidity management must also be recorded, limited and monitored; insurance companies must report on how this is done. 1

This circular defines principles for recording liquidity risks and specifies minimum requirements on liquidity reporting in terms of format and content. 2

II. Scope of application

This circular applies to all Swiss insurance companies as defined in Article 2 para. 1 let. a ISA and those insurance groups and conglomerates subject to group or conglomerate supervision under Article 2 para. 1 let. d ISA; they are referred to in this circular as 'insurers'. Unless otherwise specified, this circular applies to companies, groups and conglomerates. 3

Supervised groups and conglomerates in Switzerland are to implement this circular through their ultimate group / conglomerate company and include all their legal entities. 4

Abrogated 5*

III. Definitions

Liquidity is defined as the ability of the insurer to meet payment obligations in time and in full as they fall due. 6

Liquidity risk comprises risks emanating from business, investment and (re-)financing activities, or a combination of these risks. 7

(Re-) financing risk is the risk of being unable to obtain funds as required, whether at all, in due time or only on unfavourable terms. 8

IV. Recording liquidity risk

A. General

When applying the following principles, the distinctive features, size and complexity of the insurer are to be taken into account. 9

Liquidity must be addressed as part of the insurer's annual capital planning. The obligation to submit a report on capital planning and the minimum requirements involved are governed separately. 10

Liquidity is to be recorded by means of a maturity balance-sheet (liquidity gap analysis). Liquidity inflows and outflows, notably those from business, investment and (re-) financing activities, are to be broken down into liquidity utilisation and liquidity sources. The report must include the following in particular: 11

- Pledged, secured and unsecured funds are to be listed according to their current realisable value. 12
- Any off-balance sheet transactions must be included. Liquidity risk drivers from off-balance sheet transactions comprise in particular irrevocable loan commitments, guarantees, trigger clauses, which are linked to the creditworthiness or the capital adequacy of the insurer, margin calls and provision of collaterals. 13

Liquidity inflows and outflows are to be broken down into (residual) maturity bands as on 31 December of the previous year. Insurers themselves are to determine at least three bands and their maturities based on their business model, and explain their motivation; insurers are to provide at least one band of a one-year maturity. 14

Insurers must disclose and justify the assumptions they arrive at for inflows and outflows, in particular those based on core business (premium volume and claims paid), investment and (re-) financing. 15

Insurance groups and insurance conglomerates may form liquidity pools in order to account for legally and economically unfettered liquidity flows between legal entities; assets concerned must be clearly assigned to the individual legal entities. The report is to include a description of the pools formed and outline the reasons for their formation. Banks and securities dealers forming part of a conglomerate must be accounted for in separate reporting pools. In creating such pools, account must be taken of internal transactions of the type covered by FINMA Circular 16/4 "Insurance groups and conglomerates: supervision, organisation, structure, intra-group processes and reporting", in particular the handling of guarantees; such transactions must be disclosed and justified. 16*

B. Liquidity position

a) Under current market conditions

The liquidity position is established under the market conditions prevailing at the time of the report, by taking the cumulative liquidity inflows and outflows into account. The liquidity positions of all liquidity pools which affect legal entities subject to Swiss supervision are to be established and commented on. 17

Liquidity inflows and outflows must be reported for the components listed in Margin no. 11 and according to the (residual) maturity bands defined. Funds are to be listed in order of quality (based on the applicable haircut), and securities eligible for repo transactions with central banks must be identified. 18

Market-compliant haircuts must be applied. They must be disclosed and the assumptions underlying them described. Significant unhedged currency mismatches must be flagged. 19

Changes in liquidity position and the utilisation of limits over the whole of the past year presented on a quarterly basis are to be reported retrospectively. 20

b) Under aggravated market conditions

The liquidity position under more difficult market conditions is established by taking the stressed cumulative liquidity inflows and outflows into account. The liquidity positions of all liquidity pools which affect legal entities subject to Swiss supervision are to be established and commented on. 21

Based on their business models, insurers themselves determine an adverse scenario with rapid and substantial liquidity outflows. They describe and justify their assumptions in relation to the events selected and the risk factors taken into account. FINMA examines the scenario and the assumptions on which it is based, and reserves the right to reject it and request revision. 22

Liquidity inflows and outflows must be reported for the components listed in Margin no. 11 and according to the (residual) maturity bands defined. Funds are to be listed in order of quality (based on the applicable haircut) and securities eligible for repo transactions with central banks must be identified. 23

Haircuts under stressed market conditions must be established and disclosed. The assumptions underlying them, the collateral provided and the economic (residual) bands must be described. Significant unhedged currency mismatches must be denoted. 24

C. Liquidity planning

A prospective one-year plan for liquidity and (re-)financing under both current and aggravated market conditions must be established and submitted. 25

The liquidity plan must also describe the allocation of responsibilities at the insurance company and the measures considered. 26

V. Reporting

A. General

Once a year insurers establish a report on liquidity in accordance with this circular. FINMA reserves the right to require additional reports. 27

The report takes into account the distinctive features, size and complexity of the insurer. 28

B. Structure of the report

When establishingthe report, insurers adhere to the basic principles and minimum requirements set out in this circular. Insurers describe their own approach and the procedures adopted in putting them into practice. Any principles not taken into account are set out in an exclusions list and justified. 29

The report should meet the following requirements in terms of structure: 30

- The report is clear and self-explanatory so that any outside person familiar with the subject matter can easily assimilate it. 31
- The report must accurately reflect the distinctive features, structural complexity and size of the insurer. 32
- Insurance groups and conglomerates produce an overall report including information on those reporting pools as defined under Margin no. 16 that affect legal entities subject to supervision in Switzerland. 33
- Economically linked companies that are not subject to group or conglomerate supervision may produce an overall report similar to that provided for under Margin no. 33. They seasonably request FINMA’s permission to do so, outlining the reasons. 34

VI. Obligations and deadlines for submission

Insurance companies in supervisory category 2 and supervised insurance groups and conglomerates in Switzerland report their liquidity situation to FINMA. The cash flow statement must be submitted to FINMA by 30 April at the latest. If it is submitted by 31 January, it can be integrated separately as capital in the ORSA report (FINMA Circ. 16/3 “ORSA”). 35*

Insurance companies in supervisory category 3 submit a report to their executive boards; FINMA has the right to request this report at any time. Insurance companies in supervisory categories 4 and 5 are exempt from this reporting obligation until further notice, but are required to assess the issue. 36

List of modifications

This Circular has been modified as follows:

These modifications were adopted on 3 December 2015 and will enter into force on 1 January 2016.

modified	margin nos. 16, 35
abrogated	margin no. 5