Overview of insurance companies

The persistent phase of low interest rates continues to affect the insurance industry, posing major challenges for life insurers in particular. Nevertheless, the sector as a whole is in stable to good condition. FINMA is watching developments closely, addressing problem areas by conducting supervisory consultations, risk dialogues and supervisory reviews.

In 2013, low interest rates remained the main discussion topic in the insurance sector. The yield on ten-year Confederation bonds dropped to less than 0.5% at the beginning of the year. The situation defused somewhat during the year, with interest rates rising to over 1%. Insurers are using a range of measures to counter these challenges in the various sectors. FINMA's primary goal is to ensure that companies remain solvent and that technical provisions are adequate. In both areas, the Swiss insurance industry is in good condition when compared internationally.

Solvency II in sight

The EU has not yet reached this stage after years of internal deliberations, and it announced in November 2013 that it would implement its new solvency regime on 1 January 2016. Neither the key points nor the details of Solvency II are clear at this stage. However, it seems certain that the EU will, in principle, have an instrument for measuring solvency that closely reflects market trends and is similar to the Swiss Solvency Test (SST) that has already been in use since 2011.

The temporary adjustments to the SST that FINMA introduced because of the phase of low interest rates did produce the desired effect in 2013: solvency figures disclosed by life insurers have improved all in all, and fewer insurance companies are now underfunded compared to previous years. This gives life insurers more time to tackle the challenges that lie ahead.

Direct commitments by Swiss insurance companies in the problematic GIIPS[53] countries remain manageable. On the other hand, commitments in EU bank bonds are a cause of concern, in particular in the case of numerous life insurers.

Life insurance companies: some relief in a tough environment

The economic situation of life insurance companies in general improved somewhat in 2013. The financial markets calmed down on the one hand, and previously earned profits accumulated in the companies on the other. The effects from biometric risks[54] were less pronounced than in previous years, and the cost burden was also lower than had been expected. This enabled life insurance companies to earn above-average profits in 2013 compared to the previous year and gain financial stability.

Individual life insurers are currently adjusting their products. The new products offer lower or no interest rate guarantees, making them less attractive for policyholders and therefore generally having a negative impact on turnover. In the occupational pensions sector (group life), demand for full-cover products remains strong. Here the challenge lies in investing new assets in a way that generates a reasonable return.

Non-life insurance companies: in good shape all in all

Non-life insurance companies are generally in good financial condition. Out of the 100 insurance companies under supervision, only two small ones find themselves in a financially tense situation. With an average combined ratio[55] of 93.6% and an average return on equity of 15.4%, non-life insurance companies demonstrated their ability to perform well in 2013 once again.

In its assessment of risk profiles of non-life insurers, FINMA in 2013 focused on auditing the provisions and quality of tied assets. The audits indicate that non-life insurers have stable balance sheets and

[53] Greece, Ireland, Italy, Portugal, Spain.
[54] See Glossary, p. 111.
[55] See Glossary, p. 111.

income statements, despite increasing claims from natural catastrophes, declining investment income and a tense global economic environment. Furthermore, property insurers have solid reserves, and their investments in tied assets are of good quality.

Health insurance: an eventful year
Supplementary health insurers achieved an excellent result in 2012, in particular because of the new hospital financing scheme. FINMA conducted an extraordinary and comprehensive review of the tariffs used in supplementary health insurance. In some instances, premiums for 2014 were reduced considerably.[56]

Besides conducting its own supervisory reviews and engaging in risk dialogues, FINMA mandated external providers to conduct special audits. Following the interventions that FINMA ordered against Assura / Supra in November 2012, some of which included suspending the group's directors, a new board of directors was appointed on 22 March 2013. The transfer to Assura SA of all persons previously insured with Supra was concluded before year-end 2012.

A systematic audit of technical provisions of some health insurers found that they had insufficiently included ageing risk in their assessment. In 2013, all the affected health insurers submitted financing plans to FINMA, which were subsequently approved. Solvency among health insurers thus proves to be very solid when compared to the average for the sector.

Reinsurance: stronger capital base
In 2013, FINMA again supervised fewer reinsurance captives though a larger number of professional reinsurers. New authorisations of companies again included domicile relocations from abroad. In general, these companies have a significant capital base on account of their considerable business volume. Some of the rather small companies were exempt from supervision, causing the average capital base of those under supervision to increase considerably. The capital base of the reinsurance market worldwide has also stabilised at a historic high level.

Many reinsurers paid high dividends in 2013. Some of these were of an extraordinary nature and were used to repay excess capital, as well as to disburse a part of the profits. FINMA has classified these disbursements as business plan changes that require authorisation. Besides the effects on solvency, the audit also focused on company-specific risk tolerance, capital management and liquidity aspects.

Group supervision: internationalisation
With respect to group supervision, which supplements individual supervision, the focus on supervisory colleges[57] was further intensified. These are no longer merely annual events, but instead are developing into permanent information exchange platforms. In 2013, FINMA conducted colleges for six of the eight groups that are being supervised, namely Helvetia, Swiss Life, Baloise, Nationale Suisse, Swiss Re and twice for Zurich Insurance Group.

The exchange of opinions among supervisory authorities intensified, and FINMA, as a home supervisor of several important groups, is facing significantly more challenges. In this respect, it focused primarily on assessing risk from the perspective of groups and individual companies, capital adequacy and structure, internal group financing and group transactions, and risk management.

[56] See section on Effects of the new hospital financing scheme, p. 56.
[57] See Glossary, p. 114.

Swiss Qualitative Assessment: SQA II results published

In April 2013, FINMA published the results of the second Swiss Qualitative Assessment (SQA II).[58] SQA is the qualitative parallel to SST, focusing on corporate governance, risk management and the internal control systems of insurance companies. SQA II identified positive trends in many areas, such as increased awareness among boards of directors with respect to their supervisory obligations. It also found areas where some insurers can improve, namely in connection with certain aspects of risk management and compliance. A part of SQA also includes holding risk dialogues with members of boards of directors, executives and key people who hold control functions at companies. This dialogue helps to identify areas in which further steps are needed or where there is room for improvement. SQA III is planned for 2015.

[58] See FINMA Newsletter 46 (2013) (http://www.finma.ch/e/finma/publikationen/Lists/ListMitteilungen/Attachments/57/beilage-finma-mitteilung-46-2013-e.pdf).