At a glance: the Swiss solvency regime, taking life insurers as an example

The policyholder's perspective: from concluding an insurance contract to its termination

Contract conclusion

A customer decides to take out a life insurance policy to provide financial security for family members in a worst-case scenario. This means, for instance, that in the event of death, the insurer assumes the financial consequences, thereby relieving the customer's family (beneficiaries).

The insurer checks if the customer's request fits into its business model. If this is the case, the insurer can issue a contract which is signed by the customer (then referred to as the policyholder).

The contract agreed upon by both parties sets out the benefits the insurer will pay out to the policyholder/beneficiaries in the event of the policyholder's death or disability. The insurer determines the amount of premium to be paid by the policyholder.

FINMA's role

To take up business activities, a life insurer must apply to FINMA for a licence. Concluding such a contract is, however, a contractual relationship under private law between the insurer and its customers.

Contract period

The policyholder must pay the premiums agreed with the insurer for the duration of the contract.

In return, the insurer ensures that at all times it can cover the agreed benefits in the contract. In order to do so, the insurer invests the money paid in by the policyholder profitably, a strategy that depends on many external factors, including macroeconomic ones.

- If interest rates go down, the insurer must ensure that there are enough earnings to cover the agreed benefits in the contract.
- If life expectancy increases, the insurer must ensure that the amount of premium paid by the policyholder is sufficient.
- If the benefits guaranteed by the insurer are not or are inadequately covered by the premiums, this can with time weigh negatively on the company's financial situation.
- If the guaranteed interest rate or the conversion rate for pension benefits is too high, it becomes difficult for the insurer to provide the agreed benefits.

The insurer's adept handling of these factors subsequently determines, along with the products the insurer designs, the company's stability, i.e. its solvency.

FINMA's role

FINMA's main duty is to supervise the insurer's financial stability. It takes action if the insurer's solvency is threatened, which ultimately protects the interests of policyholders.

Contract termination

Once the contract terminates, the insurer must pay out the agreed benefits to the policyholder or the family members.

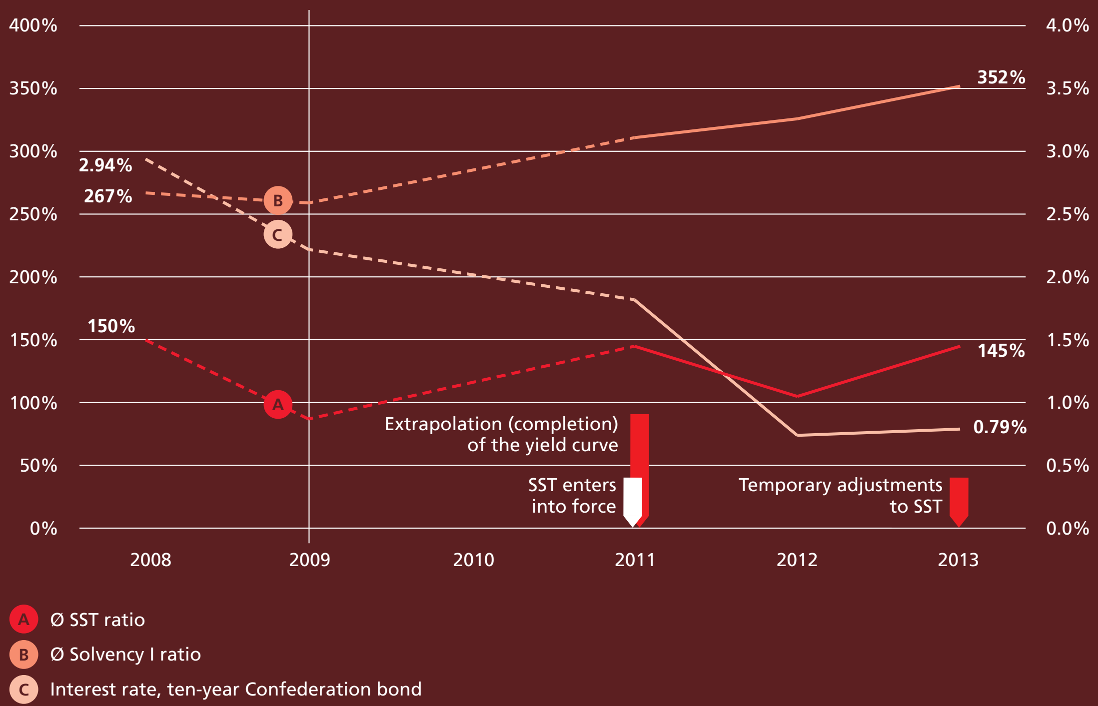
If the benefits promised by the insurer are too high, paying them out may jeopardise the company's solvency. The insurer may reduce benefits that were not guaranteed.

FINMA's role

Since FINMA requested the insurer to hold sufficient solvency capital during the term of contract, the insurer can cover the agreed benefits when the contract terminates, even in hard economic times.

The Swiss Solvency Test (SST) has been in force since 2011. It has proved to be a good 'thermometer' that allows companies to form a realistic picture of their economic situation. The SST provides FINMA with an overview of the entire market and the risk situation.

SST and Solvency I
Measuring solvency: reaction of both systems to the low interest environment



The chart shows that the SST reacts to basic changes such as low interest rates in contrast to the old system of measuring solvency (Solvency I), which is not responsive to economic changes and gives a false sense of security. The SST has raised FINMA's awareness of risks in good time. This has allowed FINMA to ensure that insurance companies strengthen their equity capital, which subsequently helps to protect policyholders.