

# Circular 2016/2

## Disclosure - insurers

### Principles for the financial condition report

Reference:	FINMA Circ. 16/2 "Disclosure - insurers"
Date:	3 December 2015
Entry into force:	1 January 2016
Last amendment:	31 March 2017 [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 Article 26 ISO Articles 111a, 203a FMAO-FINMA Article 2
Appendix 1	Quantitative templates for insurance companies
Appendix 2	Quantitative templates for insurance groups

Addressees																										
BankA			ISA			SESTA	FMA						CISA							AMLA			Other			
Banks	Financial groups and congl.	Other intermediaries	Insurers	Insurance groups and congl.	Intermediaries	Securities dealers	Trading venue	Central counterparties	Central securities depositories	Trade repositories	Payment systems	Participants	Fund management companies	SICAVs	Limited partnerships for CISs	SICAFs	Custodian banks	Asset manager CISs	Distributors	Representatives of foreign CISs	Other intermediaries	SROs	DSFIs	SRO-supervised institutions	Audit firms	Rating agencies
			X	X																						

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## I. Purpose

This circular expands on Articles 111a and 203a of the Insurance Supervision Ordinance (ISO; SR 961.011) on the financial condition report of supervised insurance companies, groups and conglomerates. 1

It describes the basic contents and structure of the financial condition report and the minimum requirements for the type and contents of the disclosure. 2

## II. Scope of application

This circular applies to all insurance companies as defined in Article 2 para. 1 lets. a and b of the Insurance Supervision Act (ISA; SR 961.01) and to insurance groups and conglomerates (insurance groups) as defined in Article 2 para. 1 let. d and Articles 65 and 73 ISA which are subject to group and/or conglomerate supervision. 3

Insurance companies authorised to operate in insurance sector C3 (reinsurance by captives) are out of scope. 4

## III. General provisions

The financial condition report (FCR) is formulated in such a way as to be comprehensible to the policyholders and the entitled beneficiaries. 5

It focuses on the previous financial year (the reporting period). 6

It is published in one of the official languages of the Swiss Confederation or in English. 7

As a matter of principle, the annual report is deemed to be the statutory single-entity financial statements or audited single-entity or consolidated financial statements based on recognised accounting standards, as specified in the Accounting Standards Ordinance [RSO; SR 221.432]. 8

The external auditor's summary report to the annual general meeting (as per Art. 728b para. 2 CO) is to be appended to the FCR. It is recommended that the annual report on which the FCR is based should be published in the appendix to the FCR. 9

If an insurance company or group publishes its annual report separately from the FCR, the FCR can make reference to the annual report whenever the information to be published has already been published in the same form. 10

The insurance company or group ensures that the published information is consistent with 11

the information prepared for reporting to FINMA in accordance with Article 25 ISA and Article 53 ISO.

## **IV. Report on the financial condition of insurance companies**

The report to be published by insurance companies shall contain narrative information in both quantitative and qualitative form. It is supplemented with the quantitative templates prescribed by FINMA (see section VII). 12

When drafting the FCR, the insurance company takes due account of the particular features, size and complexity of the business. 13

The structure of the FCR reflects the requirements set out in subsections IV.A (Business activities), IV.B (Performance), IV.C (Governance and risk management), IV.D (Risk profile), IV.E (Valuation), IV.F (Capital management) and IV.G (Solvency). 14

The report includes a brief, clearly formulated management summary which describes any material changes in the reporting period in relation to the subsections specified in margin notes 18 to 82. 15

On request, FINMA can release insurance companies from the requirement to publish certain categories of information if there are reasonable grounds for doing so. 16

The following provisions do not apply to insurance companies domiciled outside Switzerland: 17

- Section IV.C
- Section IV.D
- Section IV.E
- Section IV.F
- Section IV.G.

### **A. Business activities**

The report contains at least the following information about the insurance company's business activities: 18

- information about the company's strategy, objectives and key business segments 19
- information about whether the insurance company belongs to a group and information about group transactions / business activities which are relevant for the insurance company 20

- information about major shareholders within the meaning of Article 4 para. 2 let. f. ISA 21
- a list of major branches 22
- information about the company's external auditors as per Article 28 ISA 23
- significant unusual events. 24

## B. Performance

The report contains at least the following qualitative and quantitative information about the insurance company's underwriting performance: 25

- information about premiums, costs, claims/benefits during the reporting period (as disclosed in the annual report) 26
- comparison with the corresponding information from the previous reporting period 27
- remarks on the above information in the segmentation as provided in the quantitative template "Performance Non-Life Solo" and "Performance Life Solo". 28

The report contains at least the following qualitative and quantitative information about the insurance company's financial performance: 29

- information about income and expenses from/for investments during the reporting period (as disclosed in the annual report), by asset class 30
- comparison with the corresponding information from the previous reporting period 31
- remarks on the above information 32
- information about profits and losses recognised directly in equity. 33

The report contains information about other material income and expenses during the reporting period and a comparison with the corresponding information from the previous reporting period. 34

## C. Corporate governance and risk management

The report contains, at minimum, information about the composition of the board of directors and executive board of the insurance company and any changes during the reporting period. 35

The report contains at least the following information about the insurance company's risk management: 36

• Description of the system used, including risk strategies, methods and processes	37
• Description of the Risk Management, Internal Audit and Compliance functions and their implementation in the insurance company	38
• Material changes in risk management during the reporting period	39
The report contains a general description of the internal control system implemented at the insurance company.	40
<b>D. Risk profile</b>	
The report contains qualitative and quantitative information about the insurance company's risk profile:	41
The information is broken down into the following risk categories:	42
• Insurance risk	43
• Market risk	44
• Credit risk	45
• Operational risk (at minimum, qualitative information)	46
• Other material risks (at minimum, qualitative information).	47
The report contains at least the following information about the insurance company's risk exposure during the reporting period, including its exposure due to material off-balance-sheet positions and risks transferred to special purpose vehicles (SPVs):	48
• Description of the material risks to which the company is exposed, including any material changes during the reporting period	49
• Description of the measures taken to assess these risks within the company, including any material changes during the reporting period.	50
The report also contains:	51
• A description of the material risk concentrations to which the insurance company is exposed.	52
• A description of the tools used to reduce risk and of the processes used to monitor the ongoing effectiveness of these tools.	53

## E. Valuation

The report contains at least the following information about the market-consistent asset valuation, as used for solvency purposes: 54

- Value of the assets, broken down by asset class (as per the breakdown in the quantitative templates) 55
- Description of the basis and methods used for the valuation 56
- For each asset class, quantitative and qualitative explanatory notes if there are significant discrepancies in the basis and methods between the valuation for solvency purposes and the valuation for the annual report. 57

The report contains at least the following information about the market-consistent valuation of provisions for insurance obligations, as used for solvency purposes: 58

- Gross and net value of the provisions for insurance obligations 59
- Description of the basis, methods and key assumptions used in the valuation 60
- Quantitative and qualitative explanatory notes if there are significant discrepancies in the basis, methods and key assumptions between the valuation for solvency purposes and the valuation for the annual report. 61

The report contains at least the following information about the risk margin: 62

- Value of the risk margin and of the other effects on target capital 63
- Description of the basis, methods and key assumptions used. 64

The report contains at least the following information about the market-consistent valuation of other liabilities, as used for solvency purposes: 65

- Value of provisions for other liabilities 66
- Description of the basis, methods and key assumptions used in the valuation. 67

## F. Capital management

The report contains at least the following information about the insurance company's capital management: 68

- Goals, strategy and time horizon for capital planning 69

- Structure, level and quality of the equity capital reported in the annual report 70
- Description of any material changes during the reporting period 71
- Quantitative and qualitative explanatory notes if there are significant discrepancies between the equity capital reported in the annual report and the difference between the assets and liabilities based on a market-consistent valuation, as used for solvency purposes. 72

## G. Solvency

The insurance company provides information about its choice of solvency model. Where applicable, it justifies its choice of an internal model, describes the model's salient features, and indicates whether it has been approved by FINMA. 73

The report contains at least the following information about the target capital (with explanatory notes): 74

- Breakdown of target capital into its key components 75
- Breakdown of market risk and insurance risk into their key components 76
- Comparison with the corresponding information from the previous reporting period. 77

The report contains at least the following information about the risk-bearing capital (with explanatory notes): 78

- Breakdown of risk-bearing capital into its key components 79
- Comparison with the corresponding information from the previous reporting period 80

The insurance company comments on its reported solvency. 81

In its report, the insurance company notes that the current information about solvency (risk-bearing capital, target capital) is identical to the information which it has submitted to FINMA and, where appropriate, that it is subject to regulatory audit. 82

## V. Report on the financial condition of insurance groups

Insurance groups supervised in Switzerland publish a report on their financial condition. 83

Margin nos. 12–82 apply by extension to the financial condition report of insurance groups. 84

The financial condition report of insurance groups contains the following additional infor- 85

mation.

• In relation to business activities:	86
• Description of the legal structure of the group	87
• Listing of the main subsidiaries and shareholdings showing the qualitative or quantitative shareholding structure	88
• Listing of branches with a significant share of the business in relation to the parent company	89
• Quantitative and qualitative information about special purpose vehicles (e.g. risk transfer and capital transfer companies) and joint ventures.	90
• In relation to performance:	91
• Quantitative information about key markets (in terms of premium volumes)	92
• Qualitative information about relevant group activities / transactions.	93
• In relation to risk profile:	94
• Qualitative and quantitative information about significant risk concentrations at group level.	95
• In relation to capital management:	96
• Listing of main subsidiaries	97
• Documentation of changes to equity capital, if not already published in the annual report	98
• Explanatory notes about the capitalisation structure, in particular about hybrid, contingent and mezzanine capital.	99

## **VI. Overall financial condition report**

Insurance groups which are supervised in Switzerland can publish an overall financial condition report covering the insurance group and its insurance companies in Switzerland.	100
The overall report presents the required information separately at insurance company and insurance group level.	101

## **VII. Quantitative templates**

FINMA defines quantitative templates for the financial condition reports of insurance companies (see appendix 1) and insurance groups (see appendix 2).	102
The quantitative templates "Market-consistent balance sheet" and "Solvency" do not apply to insurance companies domiciled outside Switzerland.	103
The quantitative templates contain information about the reporting period, the previous reporting period and, where necessary, any interim adjustments.	104

## **VIII. Responsibility (sign-off)**

The executive body charged with the management, supervision and control of the company is responsible for the financial condition report and signs off its disclosure within the meaning of this circular. The general agent signs off the FCR for insurance companies under Article 2 para. 1 let. b ISA.	105
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## **IX. Publication requirements and deadlines**

The insurance company or group publishes the financial condition report on its website by 30 April each year.	106
Insurance companies which do not have a website must provide the FCR in hard copy form free of charge within twenty days following the request to do so.	107
The financial condition report is made available to FINMA as soon as it has been published.	108
Insurance companies which meet the following conditions in the reporting period and the previous reporting period may be exempted from the requirement to publish a financial condition report:	109
• Gross premiums written (in all lines of business) less than CHF 10 million;	110
• Gross technical provisions (in all lines of business) less than CHF 50 million; and	111
• Small number of policyholders.	112
Insurance companies must submit a request for exemption to FINMA no later than 30 days after the end of the reporting period. The exemption remains in place for as long as the conditions set out in margin nos. 110, 111 and 112 are met.	113

Insurance companies domiciled outside Switzerland (Art. 2 para. 1 let. b ISA) may ask to be exempted from the requirement to publish a financial condition report if they are subject to an equivalent disclosure regime in their country of domicile. 114

FINMA may allow additional exceptions on a case-by-case basis. 115

## **X. Transitional provisions**

The insurance company or group submits the financial condition report for the 2016 reporting period to FINMA by 30 June 2017. Following a review of these reports, FINMA decides whether and when they should be published in their entirety (Art. 216b para. 3 ISO). Comparisons with information from the previous reporting do not need to be included in the report. 116

From 2018 onwards (i.e. beginning with the 2017 reporting period), insurance companies or groups will publish the FCR by 30 April at the latest. 117

**The Appendixes to the Circular have been modified as follows:**

These modifications were adopted on 31 March 2017 and will enter into force on 16 May 2017.

Modified	Appendix 1: Currencies in the templates "Market-consistent balance sheet (solo)" and "Solvability (solo)"
	Appendix 2: Currencies in the templates "Market-consistent balance sheet (group)" and "Solvability (group)"