New transparency requirements for the Swiss insurance market

30 September 2015
Challenges and opportunities of the FINMA Circular 2016/xx – disclosure insurers (Public Disclosure)

This publication is part of our series on this year's changes to the regulations for insurance companies in Switzerland. In response to international developments and equivalence assessments by the EIOPA¹ and the FSAP², the revised Insurance Supervision Ordinance (ISO) was put into force this summer. FINMA has published a whole package of updated and new circulars for consultation in July 2015, with further regulatory actions under way. The Swiss authorities have acted on these measures in order to achieve equivalence with the European Solvency II directive and thus to avoid competitive disadvantages for Swiss insurance companies. The downside of this is a significant increase in requirements including transparency and reporting for Swiss insurers. The changes also appear to introduce aggressive timelines for implementation.

This publication focuses on the FINMA circular 2016/xx disclosure insurers (Public Disclosure) and the related report on the financial condition, which is currently scheduled to come into force for financial year 2016³.

Introduction

The new report on the financial condition is at the heart of the forthcoming paradigm shift in the transparency regulations for insurance companies in Switzerland. The new FINMA draft circular specifies the requirements with regards to content and structure of the report. The consultation on the new circular expired in August 2015 and a definite version is expected in two to three months. Under the new standards, both quantitative and qualitative information has to be disclosed to the general public. The new rules provide major challenges to the Swiss insurance companies in many areas.

Which companies are in scope and what are the timelines?

All companies in scope of the Insurance Supervision Act (ISA) are essentially also in scope for the new circular. FINMA has provided certain scope limitations⁴ for affected foreign insurance branches. Very small insurance companies⁵ can apply for an exemption from the disclosure requirement on an annual basis.

These requirements will apply to more than 160 insurance companies in Switzerland.

The first anticipated filing of the new report on the financial condition is April 2017 for FY 2016 and will be privately submitted to FINMA, who will then decide on the final extent and timeline. Public disclosures are currently scheduled to be made for the first time in April 2018.

What kind of information needs to be disclosed to the public?

Under the current regime, most Swiss insurers are not required to publicly disclose enhanced information on their financial performance, corporate governance, risks and solvency.

The newly required report is intended to give a comprehensive overall picture of the financial condition of an insurance company to a broad array of stakeholders. FINMA expects that the expanded disclosure requirements will improve the policyholders' position to choose the right provider and further impose some pressure on the companies' management to perform and compare favourably in the market.
The following table highlights the key areas and related content of the report on the financial condition that is expected to come into force by fiscal year 2016.

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<th>Area</th>
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| **Business information**      | • Qualitative description of the company and the market as well as the strategy and goals of the company itself  
• There is some overlap with the management report in accordance with Swiss Code of Obligations (art. 961 SCO) |
| **Financial performance**     | • Qualitative and quantitative information regarding the insurance business including commentary on the financial performance in line with FINMA requirements |
| **Governance and risk management** | Governance  
• Composition and organisation of Board of Directors (BoD) and Management  
• Compensation of BoD and Management  
Risk management  
• Description of the implemented system, the functions involved |
| **Risk profile**              | • Qualitative and quantitative disclosures per risk category in line with Swiss Solvency Test (SST) requirements  
• Risk concentration and scenarios |
| **Valuation**                 | • Quantitative and qualitative information regarding the market-consistent valuation of assets and liabilities |
| **Capital management**        | • Capital planning and information on available equity |
| **Solvency**                  | • Description of the applied model  
• Target capital as well as risk-bearing capital  
• Quantitative disclosures in line with FINMA requirements |

For regulated insurance groups, additional group-specific information is required. It is permitted to issue a comprehensive report on the financial condition of a group. However, the information for each unit still has to be presented separately. Companies which directly publish their business report can work with appropriate references to information already disclosed within this report.

Much of the requested information is interlinked to other reporting requirements such as the annual report (incl. management report) or the SST and ORSA reports to FINMA. However, close attention needs to be paid to the required level of detail in each case.

**What are the challenges and key questions insurance companies need to ask themselves?**

The significantly increasing demands for transparency of insurance companies are providing major challenges to the people responsible for regulatory reporting. It is worth being proactive and taking appropriate measures to deal with the resulting opportunities and risks:

**Communication to your stakeholders**

For a successful introduction of the new report on the financial condition, it is essential to know the relevant stakeholder groups and their expectation (regulators, investors, analysts, policyholders etc.). Expectation gaps can be managed through proactive communication following a clear strategy, which takes the following into account:

• How does the additional information influence the perception of your company? How can you prevent misinterpretations?
• What information do you consider critical?
• Do substantial grounds exist that justify the partial exemption from the disclosure requirement by FINMA? What practice will FINMA establish in this regard?
• How can smaller insurance companies apply for a full exemption from the disclosure requirement?
Defining your report

When new regulations are introduced, there will be a transition period during which a “best practice” among the concerned companies is established. In order to avoid risks of non-compliance or being overly transparent, much attention should be given to the level of detail provided:

• What are the specific minimum requirements and how do these relate to the expectations of the stakeholders?
• What constitutes the optimal report on the financial condition in your specific case?

Compiling your report – data collection and implementation

Much of the requested information is interlinked to other reporting requirements. An overview of all existing and new requirements should be the starting point when assessing the following:

• Which data is available to you already or needs to be elaborated in addition?
• Are there synergies with other regulatory requirements? Can you leverage from other regulatory reports that you already compile?
• What information has to be obtained from which functions?
• Are your processes and controls able to handle the increased requirements?

Setting up a timeline and expected additional costs

FINMA has published other circulars which will come into force simultaneously. This will require keeping track of several deadlines. For an efficient implementation, it will be essential to phase the various changes and avoid unnecessary overlaps:

• When should you start with the implementation considering the currently planned introduction starting in financial year 2016? How can you implement the requirements efficiently?
• What will be the cost of implementation? Will you use internal and/or external resources?
• Which costs must be expected in the longer term and how can you optimise these?
• What is the anticipated scope of the regulatory audit required by external auditors?

Stay on top of upcoming developments and benefit from new opportunities

In this publication, we have mostly focused on the requirements and challenges of the new regulations. However, it will be equally important to keep yourself updated on the latest developments and not to miss out on new opportunities that will arise from the increased transparency:

• What are the possibilities resulting from the improved quality and availability of information on other market participants? How can you use this information for your own market intelligence?
• What information will be important for your customers in the future?
• How do you keep track of the latest regulatory developments?

How ready is the Swiss insurance industry to comply?

The level of information and disclosure required by the circular is a significant change both in nature and volume but also implementation deadlines. In our view, those companies most impacted by this change are the companies which currently have no reason or have opted not to provide any public information. While IFRS reporting companies are used to some of these disclosures, non-public companies will have to step up.

Having discussed the developments with many of our clients, there appears to be mixed reactions to the circular. More particularly, the larger health insurers seem to have taken these developments to the top of their risk management and compliance agenda. Larger insurance groups are looking at how best to utilise the information they already publicly disclose. However, there is also a larger number of medium and small size players that have opted to “wait and see” where the final requirements will end. Very few have set up a focus group or a team to start tackling the design and implementation challenges posed by this and all other changes published in the recent months. The number of companies which have already put a “budget” behind financing the efforts is even smaller.
Conclusion

FINMA has published other circulars which are likely to be interlinked and carry the challenge of implementing all changes at the same time. Companies need to carefully assess the impact on their business and communication strategy, processes and operations. Both risks and opportunities exist in the new regulations. Thorough planning for the changes is essential in order make the best out of the new circumstances. The key question remaining is “How will you handle the transition?”

The Insurance team of Deloitte unites experts from the areas of insurance statistics, risk, operations, technology, IT, tax consulting and audit. Thanks to this expertise, combined with in-depth industry knowledge, we have the right answers to your most pressing questions. We are happy to invite you to a non-binding consultation.

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1 European Insurance and Occupational Pensions Authority
2 Financial Stability Assessment Program of the International Monetary Fund
3 Introduction depends on equivalence process with the European Union. An initial private reporting cycle for the attention of FINMA is planned for the business year 2016 (end of April 2017), the first general publication for the business year 2017 (end of April 2018).
4 For foreign insurance branches: No disclosure of governance, risk profile, valuation and solvency
5 Thresholds: Gross written premium less CHF 5 million and gross insurance reserves less CHF 25 million in the past and the current period.
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