SWITZERLAND
Key characteristics of the insurance market

1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 204 insurance companies[1] in Switzerland were supervised by the Swiss Financial Market Supervisory Authority (FINMA). These companies accounted for 5,207% of total assets of insurance undertakings operating within the European Union (EU).

The table below illustrates the number of supervised entities in Switzerland by insurance activities, and how the country compares to the EU, based on total assets.

Table 1 – Insurance reporting submissions

	#
Life undertakings	19
Non-Life undertakings	118
Health undertakings	12
Reinsurance undertakings	55
Total	**204**
Total assets / Total assets EU %	**5,207%**

Source: FINMA statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Swiss insurance companies held assets equal to 529 billion EUR.

With regards to the assets held for index-linked and unit-linked contracts, Switzerland had only 18 000 million EUR (or 3,4% of total assets) invested in this category.

In terms of technical provisions, 52,1% of the total balance sheet relates to the life business (i.e. non-index-linked and unit-linked business) while 14,4% represented non-life obligations.

Table 2 – Balance sheet and EU comparison (solo)

in Mio EUR			**EU**				
	Amount	**%**	**%**	**Avg**	**Min**	**Max**	**StD**
Investments, deposits, cash and cash equivalents	491 218	92,9%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	17 944	3,4%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	19 712	3,7%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	**528 875**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**
Technical provisions - life	275 702	52,1%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	76 162	14,4%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	93 559	17,7%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities			8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	**445 424**	**84,2%**	**86,9%**	**77,6%**	**49,1%**	**92,7%**	**11,1%**
Excess of assets over liabilities	83 450	15,8%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	**528 875**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: FINMA and Deloitte-CEPS analysis

[1] In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market therefore also refers to insurers and reinsurers.

1.3 Swiss Solvency ratios

The Swiss Solvency Test (SST) determines a quantitative solvency condition based on the comparison between risk-bearing capital (RBC) and target capital. In particular, the solvency indicator is defined as the ratio between RBC less the expected value of the discounted market value margin and the one-year risk capital.

The insurance companies are categorised into five categories based on their balance sheet total, as well as on the potential risks for creditors, investors, insured persons, and the system as a whole. The categories range from 1 (large, major and complex companies with very high risks) to 5 (low risk).

Table 3 – Supervisory categories for insurance companies

Category	Criteria (CHF in billions)	Number of institutions
1	-	-
2	Total assets > 50bn or complexity	5
3	Total assets > 1bn or complexity	38
4	Total assets > 0.1bn or complexity	56
5	Total assets < 0.1bn or complexity	105

Source: FINMA

At the end of 2017 (2017 Q4), the Swiss insurance market as a whole had available own funds that were a bit less than double the Swiss Solvency Test (SST) ratio. The reported SST ratio was 220%, very close to the one of the EU, which amounted to 237% at year-end 2017.

Table 4 – Solvency II ratios and EU comparison

in Mio EUR		**EU**				
	Amount	**%**	**Avg**	**Min**	**Max**	**StD.**
Total available own funds to meet the SCR	189 059	-	-	-	-	-
SCR	104 310	-	-	-	-	-
Surplus available own funds	**84 749**	**237%**	**225%**	**135%**	**361%**	**52%**

Source: FINMA and Deloitte-CEPS analysis

In particular, during 2017, 140 Swiss insurance companies participated to the stress test representing 69,0% of the total supervised insurers in Switzerland and 98,0% of the insurers subject to SST reporting requirements. FINMA's report[2] published as of 19 January 2018 shows a significant increase of the SST ratio compared to 2016, which was 177,0%. The risk-bearing capital increased by 2,9% to 189 million EUR, while target capital went up by 0,5% to 104 million EUR.

[2] Available at https://www.finma.ch/en/supervision/insurers/cross-sectoral-tools/swiss-solvency-test-sst/.

2 Investments

2.1 Asset exposure

At the end of 2017 and from an asset exposure perspective, the insurance market in Switzerland was heavily invested in government and corporate bonds (in total 49,9% of total Investments, Deposits, Cash and Cash Equivalents), Participations (10,3%), Real estate (9,1%), and Collective Investment Undertakings (8,4%). Equity was the sixth category to which the Swiss insurers had the most exposure.

Table 5 – Asset exposure

	Amount	%
Equities and similar investments	21 125	4,3%
Collective investments	41 101	8,4%
Real estate, buildings under construction and building land	44 462	9,1%
Participations	50 696	10,3%
Fixed-income securities (corporate and government bonds)	245 264	49,9%
Loans and debt register claims	16 728	3,4%
Mortgages	35 141	7,2%
Alternative investments	12 265	2,5%
Credits from derivative financial instruments	3 721	0,8%
Time deposits and other money market investments	4 004	0,8%
Policy loans	293	0,1%
Liquid assets	16 411	3,3%
Total investments	491 218	100%

Source: FINMA and Deloitte-CEPS analysis

2.1.1 Asset exposure between Life and Non-Life insurance undertakings

The table below gives further insight into the investment behaviour of Life and Non-Life insurance companies.

Table 6 – Asset exposure Life and Non-Life insurance undertakings

	Life	Non-life
Equities and similar investments	3,9%	6,8%
Collective investments	5,6%	5,0%
Real estate, buildings under construction and building land	13,1%	5,3%
Participations	1,6%	25,8%
Fixed-income securities	56,7%	39,0%
Loans and debt register claims	2,9%	4,8%
Mortgages	10,4%	3,5%
Alternative investments	2,6%	3,2%
Credits from derivative financial instruments	0,6%	0,4%
Time deposits and other money market investments	0,2%	0,4%
Policy loans	0,1%	0,0%
Liquid assets	2,3%	5,9%
Total investments	100,0%	100,0%

Source: FINMA and Deloitte-CEPS analysis

At EU level we note that Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,8% equity investments) in comparison to pure Life insurers (6,6% equity investments). This is also the case for Switzerland, even though the magnitude is lower. We note that Non-Life insurers invested almost twice as much (6,8%) of their assets into this category than their life counterparts (3,9%).

On the other hand, at EU level, pure Life insurers allocated a larger share of their investments to fixed-income securities as compared to Non-Life insurers. This is even more evident in Switzerland, where Life insurers invest twice as much into fixed-income securities, such as government and corporate bonds, than their EU counterparts. In particular, Swiss Life insurers reported 56,7% of their investment in this category, while the EU level amounted to 57,3%.

3 Insurance products

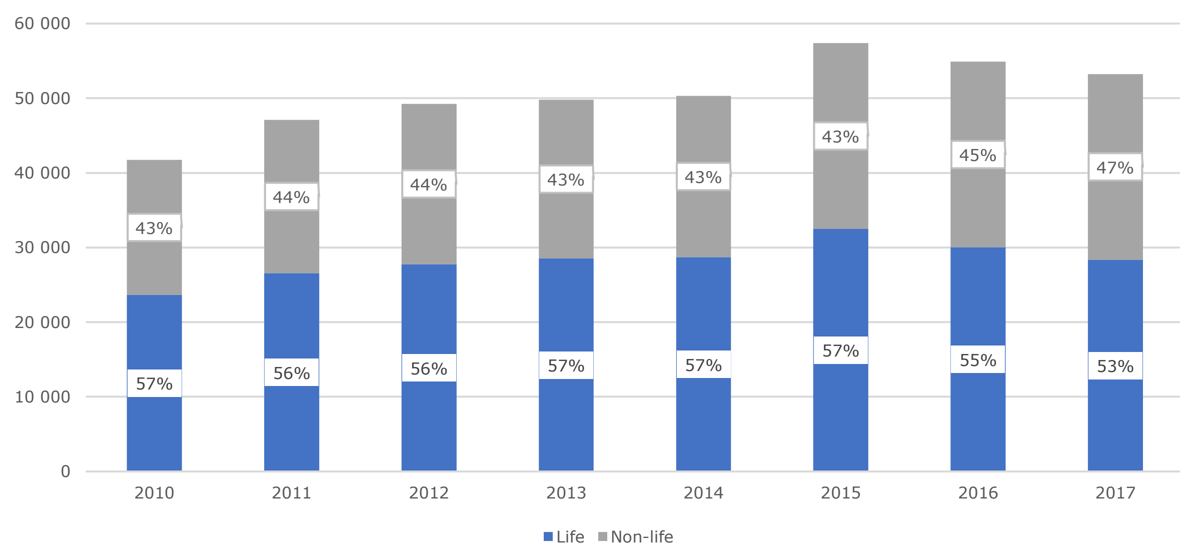
3.1 Overview

This section covers the most important insurance products offered in Switzerland and the volume of the market. Data reported in this section is obtained from the Swiss Financial Market Supervisory Authority (FINMA).[3]

At the end of 2017, Switzerland had 204 insurance companies (214 in 2015), of which 118 were exclusively engaged in non-life products and 19 in life insurance products.[4] From these 139 companies, 57,0% were domiciled in Switzerland and the 35,0% were branches of foreign insurance companies. The number of people working on the Swiss insurance industry is stable over the years. In 2016, private insurers employed 46,425 people, 2,3% less than 2015. 80,0% of them are full-time employed.

Swiss premium income grew by 37,5% between 2010 (41 724 million EUR) and 2015 (57 366 million EUR). The following two years the market recorded a decline of 7,2% and ended 2017 at 53 245 million EUR in gross written premiums. The premium income is equally balanced between life and non-life insurance policies. In particular, life insurance business represents 53,0% of the total gross written premium, while non-life insurance business represents 47,0%.

Graph 1 – Gross written premiums (in Mio EUR)



Source: FINMA

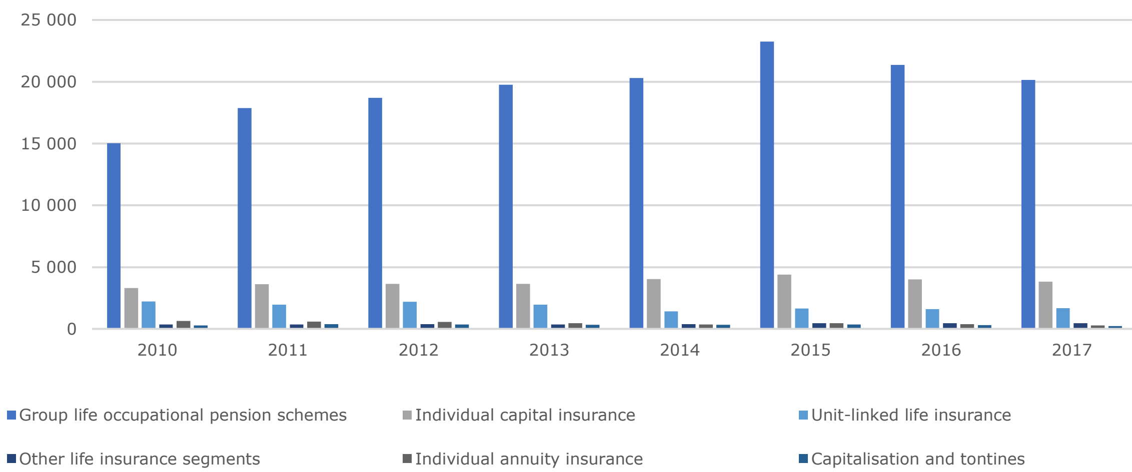
[3] Available at https://www.finma.ch/en/.

[4] From the remaining, 55 were reinsurers and 12 were general health insurance companies offering supplementary health cover.

3.2 Life insurance products

Following a steady increase over the last five years, in which life premiums grew at an average annual rate of 6,7%, the life insurance market experienced a decline of 7,6% in 2016 and a further one by 5,5% in 2017. This decline was mainly due to life insurance companies' reaction to market interest rates falling below 0,0% by considerably scaling back their activities in the area of savings insurance offering guaranteed interest. In particular, all insurance sectors experienced a considerable decline in premium volume (-5,7% for group insurance, -5,0% for individual insurance, -28,4% for annuities) except for fund-linked life insurance – a sector with low interest rate and investment risk – which increased by 5,1%.

Graph 2 – Gross written premiums of life insurance products (in Mio EUR)



Source: FINMA

3.3 Non-Life insurance products

Written gross premiums in the non-life insurance sector have been growing steadily over the last years and totalled 24 870 million EUR in 2017.

3.3.1 Health and accident

Health and accident insurance represents the largest segment of the non-life insurance products, contributing 49,6% to the premium income. In 2017, premiums were at 12 329 million EUR, 1,6% higher than a year ago.

3.3.2 Motor

Gross written premiums for motor insurance were 5 396 million EUR in 2017 (down by 1,8% compared to 2016). The sector has grown more than 60,0% over the last nine years, reflecting the increase in both the number of total vehicles and registration of new vehicles.

3.3.3 Fire and other damage to property

The fire and other damage to property insurance class is the third largest sector in the Swiss non-life market accounting for 14,4% of non-life premium income. In 2017, the gross property insurance premium dropped by 2,9% to 3 587 million EUR in 2017.

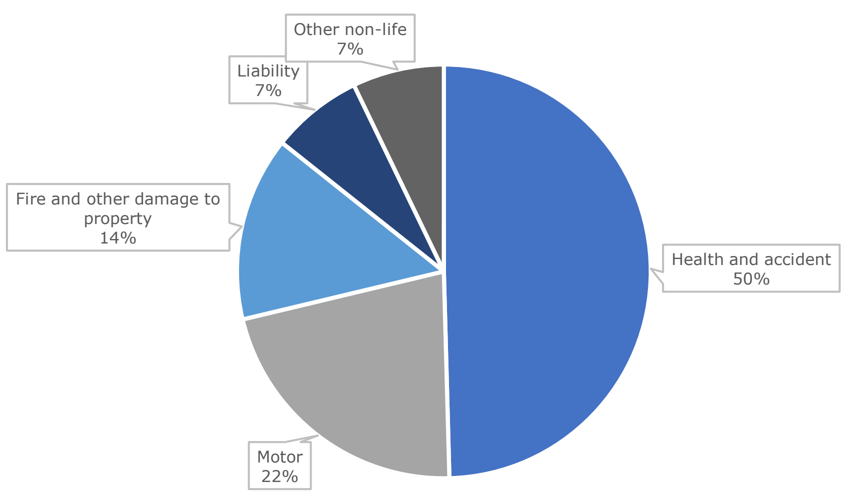
3.3.4 General liability

General liability gross written premiums declined by 2,2% in 2017, closing the year at 1 778 million EUR.

3.3.5 Other non-life

Other classes of non-life business – such as financial losses, legal protection, travel assistance, credit and suretyship, and marine, aviation and transport – accounted for 1 781 million EUR in gross written premium in 2017 (up 4,0% on 2016).

Graph 3 – Gross written premiums of non-life insurance products



Note: Motor includes motor insurance and third party liability. Other includes financial loss, legal protection, travel assistance, credit and suretyship, as well as marine, aviation and transport.

Source: FINMA

4 Accounting, tax, and prudential framework

4.1 Accounting framework

Switzerland is not a member of the European Union and, therefore, is not subject to the EU IAS Regulation or Accounting Directives.

1. The Swiss Foundation for Accounting and Reporting publishes accounting standards (ARR/FER, 'Swiss GAAP'). Compliance with ARR/FER is required by all companies. However, compliance with IFRSs ensures compliance with ARR/FER, and many large Swiss companies have, for a number of years, followed IASs/IFRSs.
2. Most Swiss companies, the equity shares of which are listed on the main board of the Swiss Exchange, are required to prepare their financial statements using either IFRSs or US GAAP. Swiss GAAP is not be permitted. The only exception is for Swiss companies listed on the main board that are not multinational (that is, operate primarily in Switzerland). Those companies may continue to use the Swiss GAAP, or they may choose IFRS or US GAAP.
3. Foreign listed companies may continue to use a national GAAP that the Exchange deems to be equivalent to IFRS or US GAAP.

4.2 Tax framework

4.2.1 Capital gains on shares

- Capital gains derived from the disposal of shares may be exempt from corporate income tax if it concerned a sale of a participation of at least 10,0% in a (resident or non-resident) company that has been held for at least one year.
- If one or more of the conditions is not complied with, the taxation will be as follows: Capital gains are treated as ordinary income and taxable at the ordinary income tax rate, which consists of a federal tax (7,8% effective tax rate) supplemented with cantonal and municipal taxes.

4.2.2 Capital losses on shares

All kinds of losses incurred in the normal course of business are deductible.

4.2.3 Taxation of dividends

- A 100,0% exemption applies on dividends received from resident or non-resident companies by resident corporate shareholders if the company owns at least 10% of the capital of the distributing company or the participation has a value of at least 1 million CHF.
- If the above condition is not met, the dividend is taxed as ordinary income.
- Swiss source dividends are subject to 35,0% withholding tax, unless a tax treaty provides for a lower rate.
- Foreign-source income is included in taxable income. Foreign-source income is taxed net of foreign taxes and no credit is available for foreign tax paid (except for the non-refundable withholding tax on dividends, interest and royalties under an applicable tax treaty).

4.3 Prudential framework

Insurers operating in Switzerland are subject to supervision by the Swiss Financial Market Supervisory Authority FINMA (FINMA). FINMA adopts a principles based, risk orientated approach of its supervision, subjecting those insurers which have a greater risk potential to more intensive supervision. FINMA assigns insurers to risk categories based on total assets, with thresholds at 100 million CHF, 1 000 million CHF and 50 000 million CHF and a further category for extremely large, major and complex companies with very high risks. Insurers' risk categories then determine the level of supervision they are subject to.

FINMA's regulatory approach can be classified into two main categories:

- **Cross-sectoral**
  The cross-sectoral tools include the Swiss Solvency Test (SST), tied assets and investment guidelines, technical provisions, periodic data and information collection, Swiss Qualitative Assessment and intensive supervision.
- **Sector specific**
  The sector specific approach covers those tailored to: individual life insurance, operating statements for occupational pension plans, approval of supplementary health insurance tariffs, natural hazards and a reciprocity list.

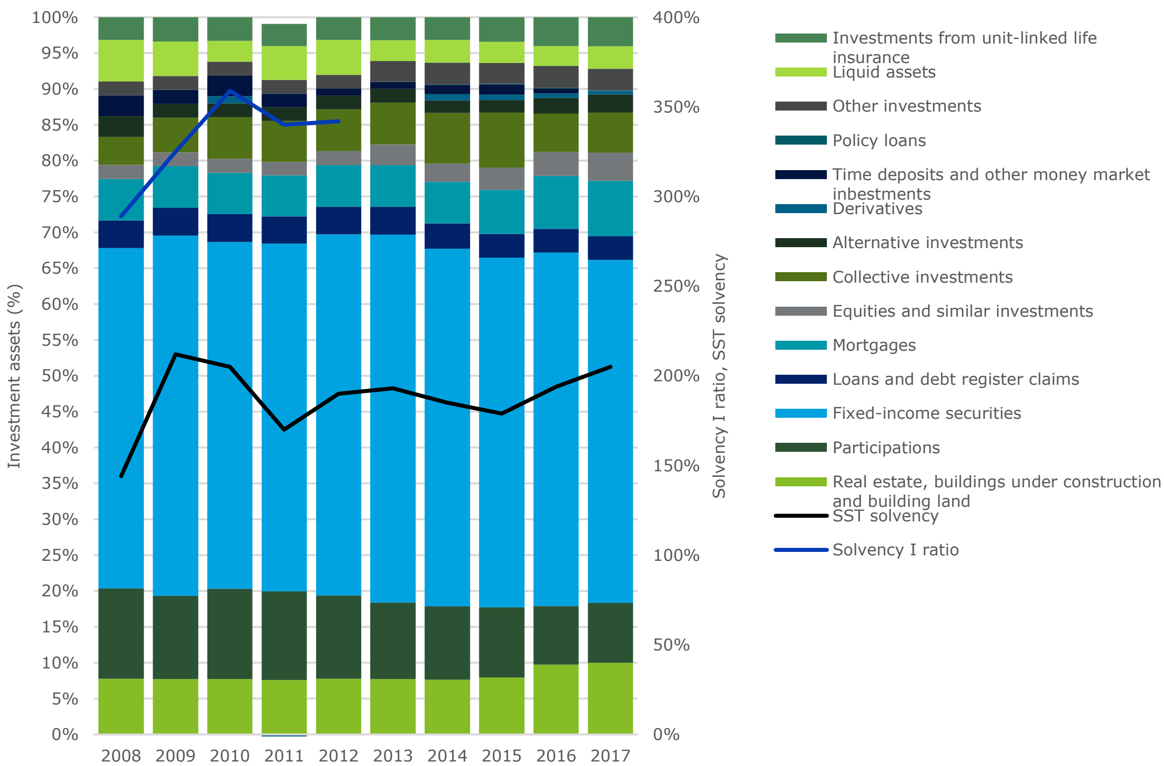
5 Historical data

5.1 Evolution of balance sheet

The graph below depicts the evolution of the different investment asset categories from 2008 until 2017.

The composition of the Swiss insurers' balance sheet has remained relatively stable over time. The most dominant assets classes are fixed-income securities, which represent approximately half of the investment assets. The second most important investment is towards participations (10,8%), followed by real estate (8,2%). Asset allocation in collective and alternative investments, accounts for 5,7% and 2,1% of total assets, while exposure to equity 2,5%.

Figure 1 – Evolution of balance sheet items (investment assets)



Notes: Derivatives contain credits and liabilities from derivative financial instruments.

Source: FINMA and Deloitte-CEPS analysis