

From the Federal Office of Private Insurance to FINMA

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For more than a century, Swiss insurance supervision was the task of a specialised federal office. The Federal Insurance Office created in 1886 became the Federal Office of Private Insurance (*Bundesamt für Privatversicherungen*, BPV), which was attached to the Federal Department of Justice and Police for most of the twentieth century and later to the Federal Department of Finance.¹ The office was small by international standards and relied on a close, sometimes informal dialogue with the industry. Its supervision long focused on the approval of tariffs and general conditions of insurance, on the technical reserves and on the rules governing the assets covering those reserves. This form of material supervision, which included preventive control of products and prices, was characteristic of continental European insurance supervision until the European Union deregulated its insurance markets with the third generation of insurance directives in 1992 and 1994.²

Switzerland followed the European liberalisation only in part during the 1990s. Prior approval of tariffs was gradually reduced for most lines of business, although it was retained in areas where the policyholder was seen as particularly in need of protection, notably in occupational pensions and supplementary health insurance. The decisive change came with the crisis of the Swiss life insurers after the stock market falls of 2001 and 2002. Several companies, among them *Rentenanstalt*/Swiss Life, faced severe pressure on their solvency because they had invested heavily in equities while guaranteeing minimum interest rates on large books of occupational pension business.³ The episode, which also prompted a broader debate on the transparency of the life insurers' occupational pension business, showed that the existing supervisory instruments did not capture the economic risk carried by the insurers. A new act was prepared under the leadership of the BPV, whose director in those years, Herbert Lüthy,

became associated with a shift towards principles-based and risk-based supervision.⁴

The integration of insurance supervision into a single financial market supervisor followed a few years later. The Financial Market Supervision Act of 22 June 2007 (FINMASA) merged the Swiss Federal Banking Commission, the Federal Office of Private Insurance and the Anti-Money Laundering Control Authority into FINMA, which began its work on 1 January 2009.⁵ The timing was coincidental, since the decision to create an integrated supervisor had been taken before the financial crisis, although the crisis shaped FINMA's first years. Within FINMA, insurance supervision has been organised as a separate division with its own head, located mainly in Bern. Its supervisors oversee primary insurers, reinsurers, insurance groups and conglomerates, as well as the registered insurance intermediaries.⁶

The merger brought the insurance supervisors into an institution dominated in size and public attention by the supervision of the two large banks. It also exposed insurance supervision to a stronger culture of enforcement. FINMA classifies the institutions it supervises in supervisory categories from 1 to 5 according to their size, complexity and risk, and allocates its supervisory intensity accordingly.⁷ The largest Swiss insurance and reinsurance groups, among them Swiss Re, Zurich Insurance Group and the combined Helvetia Baloise group, are subject to the most intensive form of supervision, including group-wide supervision and participation in international supervisory colleges.

1 Notes

1. On the institutional history of the Federal Office of Private Insurance (BPV, Office fédéral des assurances privées, OFAP) and its departmental attachment, see the annual reports of the BPV and the federal administrative history. Details of departmental attachment to be verified. ↩
2. Council Directive 92/49/EEC (third non-life directive) and Council Directive 92/96/EEC (third life directive), which abolished the prior approval of tariffs and policy conditions in the EU from 1994. To be verified. ↩
3. On the difficulties of the Swiss life insurers in 2001–2003, the capital increases of Swiss Life (formerly Rentenanstalt) and the debate on the minimum interest rate and conversion rate in occupational pensions, see contemporary reports of the BPV and the financial press. To be verified. ↩

4. On Herbert Lüthy's role as director of the BPV in the reforms that led to the VAG of 2004 and the SST, see the BPV annual reports for 2003–2007 and the literature on the SST. To be verified. ↩
5. Federal Act of 22 June 2007 on the Swiss Financial Market Supervisory Authority (Financial Market Supervision Act, FINMASA, SR 956.1), in force for the most part since 1 January 2009. To be verified. ↩
6. FINMA, organisational structure (Insurance division, Geschäftsbereich Versicherungen); FINMA annual reports. To be verified. ↩
7. FINMA, categorisation of supervised institutions (Aufsichtskategorien), as explained on the FINMA website and in its annual reports; category assignments of individual insurers are published in part. To be verified. ↩

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