

Switzerland as a captive domicile

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Switzerland is a significant captive domicile of the second rank, behind Luxembourg, Ireland and Bermuda. FINMA supervises a few dozen captive reinsurance companies, commonly estimated at about thirty to forty, alongside a smaller number of captive direct insurers. Many belong to Swiss multinational groups in pharmaceuticals, chemicals, food, machinery and commodities, while others belong to foreign groups that have placed their treasury or trading operations in Switzerland.¹ The cantons of Zug, Zurich, Basel-Stadt, Geneva and Vaud host most of them. A Swiss captive is usually a company limited by shares with a minimum capital fixed by supervisory law, managed by a specialised captive manager or by the risk management department of the group.

The attraction of Switzerland lies chiefly in its stability, the proximity of the reinsurance market of Zurich and the presence of the group's own management. Until the end of 2019 several cantons granted special tax status to holding, mixed and domiciliary companies, which also benefited certain captives. The Federal Act on Tax Reform and AHV Financing (TRAF), adopted by referendum in May 2019 and in force since 1 January 2020, abolished these regimes and replaced them with measures that apply to all companies, such as the patent box and additional deductions for research and development.² Since then a Swiss captive is taxed at the ordinary cantonal and federal rates, which in Basel-Stadt amount to about thirteen per cent including the federal tax, and in Zug to about twelve per cent.³

Swiss supervisory law has always treated captive reinsurers more lightly than primary insurers that serve the public. Captive reinsurers are not subject to the rules on tied assets that protect policyholders of direct insurers, and their reporting obligations are reduced. The revision of the Insurance Supervision Act adopted by Parliament in December 2021, which entered into force on 1 January 2024 together with the revised

ordinance, strengthened this approach of proportionality. It introduced a classification of insurers by the protection needs of their clients and allowed FINMA to relieve insurers serving professional clients, including reinsurers and captives, from certain requirements.⁴ Chapter II of this Part described the revision in general terms. For captives, the most relevant consequences concern the Swiss Solvency Test, the governance requirements and the possibility of operating with a lean organisation.

The Swiss Solvency Test applies to captive reinsurers in principle, although in a simplified form. FINMA has allowed captives to use the standard model with simplifications and has adjusted the reporting requirements to their size and business. Whether the revised ordinance exempts some captives entirely from the risk-based capital requirement, or merely reduces the frequency and depth of reporting, is a question on which the practice of FINMA after 2024 should be consulted.⁵ A group considering a Swiss captive will therefore compare the capital requirement under the SST with that under Solvency II in Luxembourg or Liechtenstein and with the lighter regimes of Guernsey or Bermuda. Since the SST was recognised as equivalent to Solvency II in 2015, as Chapter II explained, a Swiss captive reinsurer can deal with insurers in the European Union on equal terms.

1 Notes

1. On the number of captive insurance and reinsurance companies under FINMA supervision, see the list of supervised institutions and the annual reports of FINMA and the publications of the Swiss captive owners and managers. Figures to be verified. ↩
2. Federal Act on Tax Reform and AHV Financing (TRAF/STAF) of 28 September 2018, approved in the referendum of 19 May 2019, in force since 1 January 2020; on the abolition of the cantonal special status regimes and its consequences for captives, see the Swiss tax literature. To be verified. ↩
3. On the effective corporate income tax rates in Basel-Stadt (about 13 % since the tax reform of 2019) and Zug (about 11.8–11.9 %), see the publications of the cantonal tax administrations and the comparative tables of the advisory firms. Figures to be verified. ↩
4. Amendment of the Insurance Supervision Act of 17 December 2021 and revision of the Insurance Supervision Ordinance of 2023, both in force since 1 January 2024 (AS 2023 ...); on the principle of proportionality and the treatment of insurers with professional clients, see Arts. 30a ff. ISA (revised) and the dispatch of the Federal Council of

21 October 2020 (BBl 2020 8967). Article numbers and status to be verified. ↩

5. On the application of the Swiss Solvency Test (SST) to captive reinsurance companies and the simplifications granted by FINMA, see the FINMA circulars on the SST and the revised Insurance Supervision Ordinance (Arts. 41 ff. ISO). Status to be verified. ↩

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