

The SST in practice: 2008 and the years of low interest rates

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The first test of the SST came with the financial crisis of 2007 to 2009, which hit during the transitional period. The fall in equity prices, the widening of credit spreads and the decline in interest rates reduced the risk-bearing capital of many insurers, while the volatility of the markets increased the target capital. In 2009 the aggregate SST ratios of the Swiss insurance market fell considerably, with some companies reporting ratios close to or below 100 per cent.¹ Unlike the banks, no Swiss insurer required state support. The crisis nevertheless demonstrated the value of a risk-based regime, because it showed the supervisor and the companies at an early stage where the vulnerabilities lay. Several insurers reduced their equity exposure, strengthened their capital and adjusted their asset-liability management in response.

The period of low and negative interest rates that followed was a longer and more fundamental test. The Swiss National Bank introduced a negative policy rate in January 2015, at the same time as it discontinued the minimum exchange rate for the euro. For several years afterwards, yields on Swiss government bonds were negative across a large part of the yield curve.² For life insurers with large portfolios of guaranteed savings and annuities, the market-consistent valuation of liabilities discounted at such rates produced a sharp increase in the value of their obligations. The SST ratios of life insurers declined and fluctuated considerably, while their statutory accounts, which used fixed technical interest rates, did not show the same deterioration.

FINMA reacted to this situation with a combination of firmness and pragmatism. It maintained the principle of market-consistent valuation and refused to introduce a general relief comparable to the long-term guarantee measures of Solvency II. At the same time, it adjusted the extrapolation of the yield curve and accepted certain transitional

arrangements in individual cases, for example by permitting temporary approaches under which insurers could build up their capital over time.³ The insurers responded by reducing their guarantees for new business, shifting to products with lower or no guarantees, increasing their hedging of interest rate risks and strengthening their reserves. The most visible consequence, discussed later in this chapter and in chapter IV, was the decision of some insurers to withdraw from the full insurance model in occupational pensions.

When interest rates rose sharply in 2022 and 2023, the effect reversed. As the value of long-term liabilities declined, the SST ratios of most life insurers improved markedly, although the value of their bond holdings also fell.⁴ The experience of the whole cycle has strengthened the case of those who argue that a market-consistent regime gives the most honest picture of an insurer's position, while it has also shown that the volatility of solvency ratios must be explained carefully to the public and to rating agencies, who might otherwise misinterpret short-term movements as signs of a structural weakness.

1 Notes

1. On the effects of the financial crisis on the SST results of Swiss insurers, see FINMA's annual reports for 2008 and 2009 and its reports on the SST field test results. Figures to be verified. ↩
2. On the SNB's negative interest rate of -0.75% introduced on 15 January 2015 and maintained until September 2022, and on the negative yields of Confederation bonds, see the SNB's annual reports. See also Part B of this book. Cross-reference. ↩
3. On FINMA's approach to the SST in the low interest rate environment, the adjustments to the yield curve methodology and temporary measures granted under Art. 48 AVO (earlier version), see FINMA annual reports 2012–2020 and the FINMA Risk Monitor. To be verified. ↩
4. On the effect of rising interest rates in 2022–2023 on the SST ratios of Swiss insurers, see the Financial Condition Reports for 2022 and 2023 and the FINMA Risk Monitor 2023. Figures to be verified. ↩

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