

The "Swiss finish" debate

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The term "Swiss finish" is usually associated with the banking sector, where Switzerland imposed capital requirements on its large banks that exceeded the Basel minimum. In insurance, the debate takes a different form, since there is no international minimum to compare with. The comparison is made with Solvency II, against which Swiss insurers have long argued that the SST imposes stricter requirements than its European counterpart.¹ The arguments relate in particular to the treatment of interest rate risk, the absence of long-term guarantee measures, the treatment of sovereign bonds and the lack of transitional measures. Under Solvency II, European government bonds denominated in the domestic currency are subject to no capital charge for spread risk in the standard formula, while the SST treats credit risk on sovereign exposures more consistently with their actual risk.

The industry has also pointed to the volatility of the SST ratio and the burden of calculating both an SST and a Solvency II ratio for groups with European subsidiaries. FINMA, on the other hand, has emphasised that the SST captures the economic reality more accurately, that it was a pioneer of risk-based supervision and that the absence of artificial measures to dampen volatility helped Swiss insurers to strengthen their resilience early.² The revision of 2024 introduced some adjustments, such as the possibility of recognising certain mechanisms to reduce volatility and greater flexibility in the use of models, which brought the SST closer to Solvency II in specific points.

The debate illustrates a broader theme of this book. Switzerland, as a financial centre outside the European Union, must decide repeatedly whether to align its regulation with European standards in order to secure market access and equivalence, or to maintain distinct rules that it considers more appropriate. In insurance, the decision to develop the SST before Solvency II gave Switzerland a measure of influence over the

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European debate. It is a rare example of a Swiss regulatory innovation that was later reflected in an international standard.

1 Notes

1. On the industry's position on the SST compared with Solvency II, see statements of the Swiss Insurance Association (SVV) and the reports of the larger insurers; on the term "Swiss finish" in banking, see Part F of this book. To be verified. ↩
2. FINMA statements on the SST and its comparison with Solvency II, see FINMA annual reports and speeches by members of the FINMA executive board responsible for insurance. To be verified. ↩

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