

Switzerland, Solvency II and the Insurance Capital Standard compared

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The Swiss Solvency Test, Solvency II and the IAIS Insurance Capital Standard (ICS) share the same starting point: a market-adjusted valuation of assets and liabilities and a capital requirement calibrated to the risks of the undertaking. They differ in calibration, structure and institutional setting.

Solvency II measures the solvency capital requirement as the value at risk of basic own funds at a confidence level of 99.5 per cent over one year, adding a minimum capital requirement as a lower threshold below which authorisation is withdrawn.¹ The SST uses expected shortfall at 99 per cent, which captures the average of the worst outcomes and tends to give weight to fat tails. Besides the standard formula, partial internal models and full internal models, Solvency II contains long-term guarantee measures such as the matching adjustment and the volatility adjustment that dampen the effect of spread movements on long-term liabilities. The SST relies more heavily on company-specific scenarios and on FINMA's review of models. Its standard models are revised through ordinance and circular in a less formal procedure than the European delegated acts.

The European framework is itself in motion. In January 2025 the European Union published a directive amending Solvency II and a new Insurance Recovery and Resolution Directive (IRR), which member states must transpose by the end of January 2027. The amendments reduce the cost-of-capital rate used in the risk margin to 4.75 per cent, which particularly benefits insurers with long-term liabilities. The IRR requires member states to designate resolution authorities with tools such as solvent run-off and portfolio transfers. It also requires resolution planning for insurers that together represent at least 40 per cent of each national life and non-life market.² Switzerland, with its restructuring regime in force since 2024, was in this respect a few years ahead of the Union. The Swiss rules and the

IRRД rest on similar ideas: a preference for continuity of cover, the protection of policyholders through portfolio transfers and a no-creditor-worse-off safeguard.

At global level, the IAIS adopted the Insurance Capital Standard at its meeting in Cape Town on 5 December 2024 as a prescribed capital requirement for internationally active insurance groups. At the time, the IAIS counted 59 such groups in 18 jurisdictions. The IAIS planned the development of an assessment methodology in 2025, a baseline self-assessment of its members in 2026 and jurisdictional implementation assessments from 2027.³ For Switzerland the question is whether the SST, applied at group level, produces outcomes comparable to the ICS. Swiss groups and FINMA have an interest in showing that it does, since a separate ICS calculation would add cost without improving protection. The practical expectation in Zurich is that the SST will continue as the binding Swiss standard, while its group version is calibrated so that international comparisons do not reveal significant gaps.

1 Notes

1. Directive 2009/138/EC (Solvency II), Art. 101(3): the SCR “shall correspond to the Value-at-Risk of the basic own funds of an insurance or reinsurance undertaking subject to a confidence level of 99,5 % over a one-year period”, and Art. 129(1)(b), under which the minimum capital requirement corresponds to “an amount of eligible basic own funds below which policy holders and beneficiaries are exposed to an unacceptable level of risk”, text as reproduced at <https://www.legislation.gov.uk/eudr/2009/138/article/101> and <https://www.legislation.gov.uk/eudr/2009/138/article/129>. Art. 100 contains the general obligation to hold eligible own funds covering the SCR. ↩
2. Arthur Cox, “EU publishes amendments to Solvency II and IRRД”, January 2025, <https://www.arthurcox.com/insights/eu-publishes-amendments-to-solvency-ii-and-irrd/>. ↩

3. International Association of Insurance Supervisors, “IAIS adopts Insurance Capital Standard and other enhancements to its global standards to promote a resilient insurance sector”, 5 December 2024, <https://www.iais.org/2024/12/iais-adopts-insurance-capital-standard-and-other-enhancements-to-its-global-standards-to-promote-a-resilient-insurance-sector/>. ↩

For general information only. This article does not constitute legal or tax advice, does not replace advice on an individual case and creates no lawyer-client relationship. It reflects the legal position as of September 2026.

Online version: helveticaregister.com/zurich-switzerland-solvency-ii-and-the-insurance-capital-standard-compared