



# Public Disclosure - Insurers

Insurance

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The new rules on public disclosure for insurance companies are proving to be a challenge for the industry as far as transparency of financial information is concerned. Most insurance companies in Switzerland are affected.

With the amendment of the Insurance Oversight Ordinance (ISO) which entered into force in July 2015, Swiss supervisory legislation has achieved the prerequisites for equivalence to Solvency II. Because of this, it became necessary to issue a new FINMA circular on the subject of qualitative risk management and disclosure. One of these is the **FINMA circular 2016/02 Disclosure – Insurers**, which entered into force on 1 January 2016.

# Background / Legal Foundation

The FINMA circular 2016/02 provides more detail on Articles 111a and 203a ISO and describes the fundamental background regarding content and design of the report on the insurer's financial situation as well as the minimum requirements for the type and content of the public disclosure. When preparing this, the size and complexity of the insurance company must be taken into consideration.

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<b>Scope</b>	<p>All insurers under Article 2(1)(a), (b) and (d) ISA are obliged to publish a report on their financial situation.</p> <ul style="list-style-type: none"><li>• Swiss insurance companies, direct insurers and reinsurers (exception: reinsurance captives with license for line of insurance C3)</li><li>• Insurance companies domiciled abroad for their activities as insurers in Switzerland (branch offices)</li><li>• Insurance groups and conglomerates</li></ul> <p>Reinsurance companies domiciled abroad are not subject to ISA and therefore not affected.</p>
<b>Report on the Financial Situation</b>	<p>All of the above-mentioned insurance companies have to prepare a report on their financial situation. Groups are also obliged to prepare such a report. Insurance groups supervised in Switzerland may publish a group report for the entire group and its insurance companies in Switzerland. Such a group report contains a separate presentation of the data to be published at the level of the insurance companies and at group level.</p>
<b>General Provisions</b>	<ul style="list-style-type: none"><li>• Easy-to-understand language (in an official language or English)</li><li>• Focus is on the past business year</li><li>• Audit firm's summary report to the Annual Meeting must be enclosed</li><li>• Report on the financial situation is part of the normal FINMA reporting</li></ul>
<b>Approvals and deadlines</b>	<p>The most senior body of the company charged with direction, supervision and control is responsible for the report on the financial situation and must approve its disclosure (for branch offices: approval required from the general manager).</p> <ul style="list-style-type: none"><li>• Annual publication on the website by 30 April at the latest</li><li>• Should the company/branch office not dispose of its own website, the insurance company is obliged to send a printed copy of the report to all interested parties within 20 days at no cost.</li><li>• Transitional provisions for the 2016 reporting period: The company is to submit the report to FINMA by 20 June 2017 at the latest. FINMA decides whether and when it publishes all of the reports.</li></ul>
<b>Exemption possibilities and relief</b>	<p>The following requirements must be fulfilled cumulatively in the current and prior periods:</p> <ul style="list-style-type: none"><li>• Gross premiums written &lt; CHF 10 million</li><li>• Gross technical provisions &lt; CHF 50 million</li><li>• A small number of insureds</li></ul> <p>A request for exemption must be submitted to FINMA no later than 30 days after the reporting period has ended.</p> <p>Insurance companies domiciled abroad may be exempted from such public disclosure if they are subject to a similarly strict disclosure regime in the country where their headquarters are located. Branch offices need to publish information only on their business activities and on their net income (the qualitative provisions are applicable).</p>

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# Scope of the disclosures

According to Article 111a(2) ISO, the report shall contain quantitative and qualitative information on the financial situation of each separate company.

- Business activities (margin nos. 18-24),
- Net income (margin nos. 25-34),
- Corporate governance and risk management (margin nos. 35-40),
- Risk profile (margin nos. 41-53),
- Valuation (margin nos. 54-67) and
- Solvency (margin nos. 73-82)

The company must state the most important changes in the reporting period in regard to the areas listed above in an executive summary at the beginning of the report.

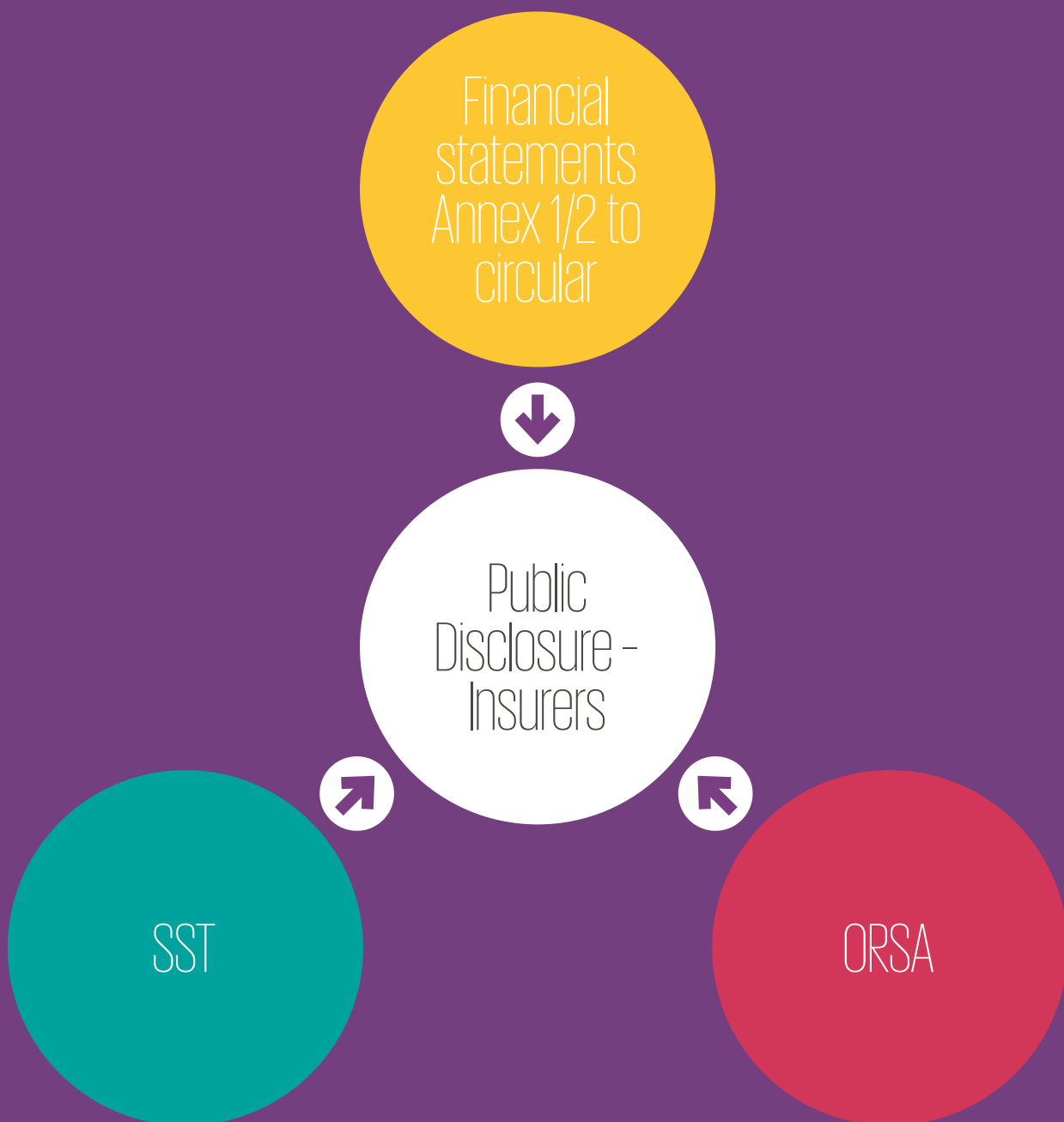
This report is to focus on the past business year and take into consideration the specifics of the company, its size and complexity, but also contains an outlook.

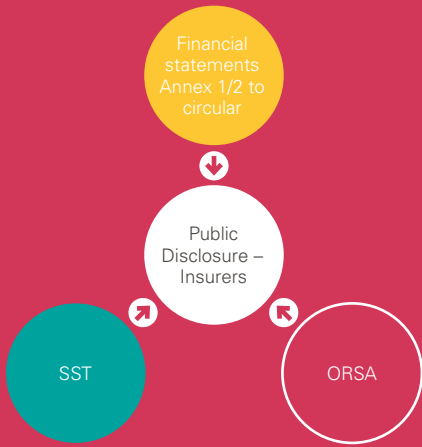
The aim is to disclose information concerning the annual financial statements, internal reporting, ORSA and SST as a summary.



# Sources of information / data

In the context of the financial reporting, the company may also refer to other published information if it was published in the same form. In doing so, it is important to have all of the disclosed information that are part of the reporting agree with each other and ensure its consistency.



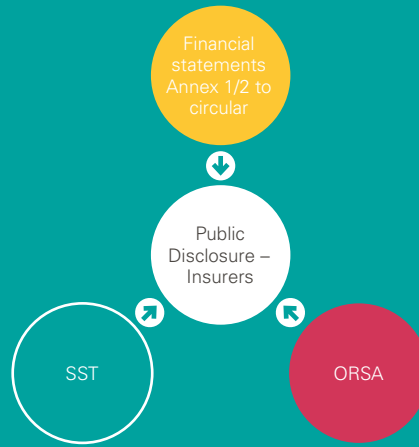


## ORSA

With the **FINMA circular 2016/03 ORSA**, FINMA laid the cornerstone for a forward-looking self-assessment, the Own Risk and Solvency Assessment. Sections of this internal risk assessment are disclosed in the framework of the financial reporting,

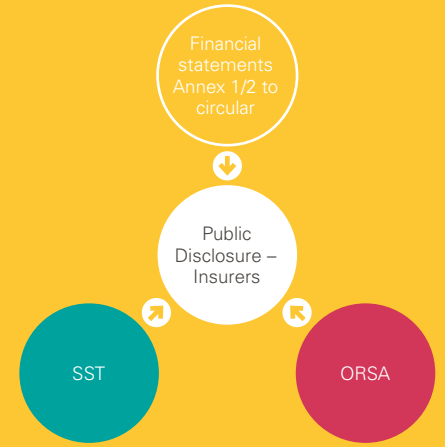
This especially affects corporate governance, risk management and capital management aspects as well as information on the risk profile and risk concentrations.

The "relevant procedures/ transactions within the group" mentioned in margin no. 20 are also closely related to ORSA.



## SST

The information on valuation and solvency relate to the disclosure of the information from the SST report. In this context, the difference between the statutory closing and the market-price valuation of investments (margin no. 57) as well as technical reserves (margin no. 61) are to be presented.



## Financial information

Insurance companies in Switzerland had to prepare their statutory financial statements in accordance with the rules presented in the ISO-FINMA for the first time for reports dated 31 December 2015. In this regard, there have been some new rules applicable to the notes to the annual financial statements. The detail required for companies and branch offices will increase even further with the report on the financial situation. With Annex 1 to FINMA circ. 2016/02, companies and branch offices must disclose their income statement and balance sheet broken down by branches/business lines that are highly granular. The information and the changes compared to the previous period are also described qualitatively. We recommend an integrated system in order to ensure that the aggregated information from the annual financial statements can be reconciled to those of Annex 1.

Other information on the financial report as per Chapter IV.A and B has to be disclosed, such as the notes, the management report or the forms making up the business plan.

In addition to the disclosure of regulated single entities, groups must also disclose information on their financial situation (margin nos. 83-99). Here, it is important that the information published by the parent company matches the information published by the subsidiaries.



# Challenges encountered in the implementation

## Different data sources

The quantitative and qualitative data to be published has to be gathered from different sources; i.e. the financial reporting, the SST and ORSA must be consistent with the information disclosed elsewhere or which have already been submitted to FINMA, for instance in the context of FIRST, the annual financial statements, the comprehensive report of the auditor or presentations made at FINMA meetings. The importance of good governance for own data cannot be stressed enough: ideally, the data should all be extracted from a single source located on a single platform.

It is the Board of Directors' responsibility to approve the public disclosures; however, the Board often delegates this responsibility to the Audit Committee. In this respect, the Board of Directors may require an external confirmation on the integrity of the reporting systems and consistency and reliability of the reported data, especially as some of the disclosures are of a rather sensitive nature.

## Form of publication

Companies should also understand in what form the information in question will be disclosed:

- either as a single, summarizing document containing all of the required information
- or as a document which refers to the information in other reports which have already been published which are now enriched as per FINMA's requirements.

## Timeline

According to the CO, reinsurers currently have the possibility to provide a report until 30 June. Now that public disclosure has become mandatory, these companies must disclose their audited annual financial statements already by 30 April. This means that the annual financial statements will automatically have to be approved earlier. This requires careful planning as it is highly likely that this is a period when other reports, such as the SST report and possibly, a Solvency II report to a European parent may also be due.

## Which accounting standards should you use?

The FINMA circular offers the companies the possibility to publish their reports either as per the Code of Obligations or another accounting standard (IFRS, Swiss GAAP FER or US GAAP). The prerequisite for this is that the closing is audited.

The companies therefore have to decide what makes the most sense in their particular case. Usually, insurance groups prepare consolidated financial statements under IFRS or Swiss GAAP FER. Single entities will probably choose to report under the CO except for companies that also choose to apply IFRS for the single entity.

## Granularity

Companies have to make some strategic decisions as to which information they want to publish:

- The absolute minimum to meet the requirements of the FINMA circular.
- Detailed information meant to showcase the organization's activities and strengths.

For some companies, disclosing group-internal transactions could cause negative reactions.

## Sensitive information

Companies should also be aware that this is the first time that they will be sharing sensitive information with the public:

- Differences between the valuation of investments according to the SST (market value) and book value as per CO
- Differences between the technical reserves according to SST and the book value as per CO; this is especially sensitive in view of existing equalization reserves.

# KPMG support

- **What should be your next steps?**
- **Which measures can you implement immediately?**
- **How do you ensure that data is consistent and complete?**
- **Why should you not wait too long with implementations?**

These are questions which are of importance to all insurance companies and where we will gladly help you find the solution that works best for you. Our experts will be pleased to help you in your endeavors. Depending on the situation, we will consult specialists from our worldwide network with the aim to provide the most efficient service and to find a solution tailored to your specific needs. Our contacts will gladly meet with you personally for a gap analysis.

Our range of services in regard to public disclosure includes the following:

## Complete reporting

### [Outsourcing]

For insurers who wish to fully outsource this process. We will assume the full compilation and preparation of the reporting on your financial situation.

## Project support

### [Co-Sourcing]

For insurers looking for professional support for this process. Engage us as your project manager to oversee the preparation of your reports and benefit from our know-how.

## Gap analysis

For insurers who wish to have the report assessed that they have prepared themselves. We will analyze the report on the financial situation for any gaps in regard to consistency and completeness.

## Voluntary audit

For insurers that have prepared their own report who wish to have it audited on a voluntary basis. We would audit the report on the financial situation and provide a confirmation in the form of an audit report.

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