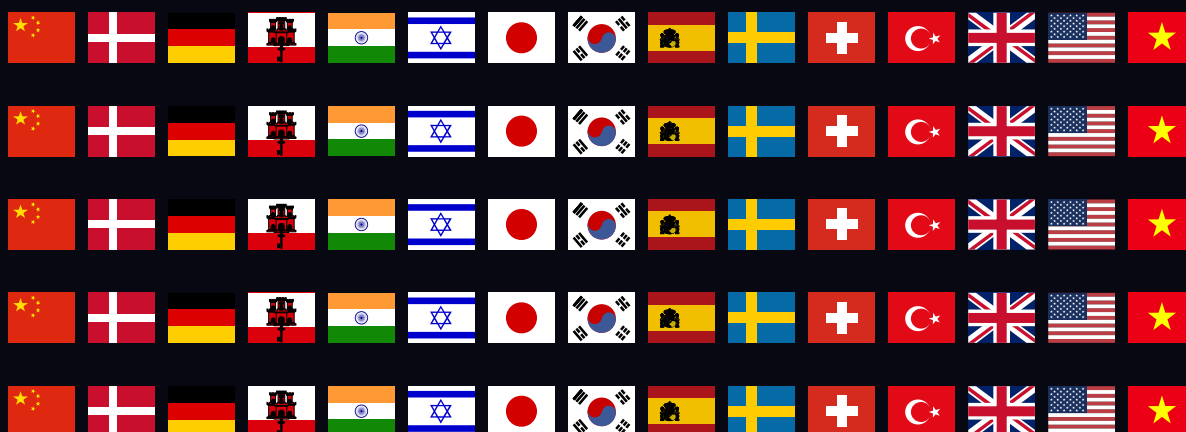


INSURANCE & REINSURANCE

Switzerland



Insurance & Reinsurance

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Quick reference guide enabling side-by-side comparison of local insights into insurance and reinsurance issues worldwide, including regulation of insurance and companies and their activities; insurance claims and coverage; reinsurance principles and practices; disputes (including arbitration); and recent trends.

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REGULATION

Regulatory agencies

Identify the regulatory agencies responsible for regulating insurance and reinsurance companies.

The Swiss Financial Market Supervisory Authority (FINMA) supervises insurance and reinsurance undertakings, insurance intermediaries and groups as well as other financial institutions (eg, banks, stock exchanges, securities firms and collective investment schemes).

Insurance and reinsurance operations are regulated at federal level. The Swiss Federal Financial Market Supervision Act (as amended) sets out supervision principles and instruments of FINMA in respect of all financial markets. The Swiss Federal Insurance Supervision Act (as amended) (ISA) and the Swiss Federal Insurance Supervision Ordinance (as amended) contain the rules and regulations for insurance and reinsurance undertakings.

Social insurance schemes (eg, for mandatory disability, unemployment or health and accident insurance) are subject to the supervision of the Swiss Federal Office of Social Insurance or the Swiss Federal Office of Public Health, respectively. Occupational pension funds are mainly subject to supervision by the cantons, although there is also a federal supervisory body.

Law stated - 24 April 2023

Formation and licensing

What are the requirements for formation and licensing of new insurance and reinsurance companies?

Any company with its domicile in Switzerland must obtain a licence from FINMA before engaging in insurance or reinsurance activities. It must submit to FINMA an application that consists of a formalised business plan and ancillary documentation on:

- financial aspects (minimum share capital, solvency, organisational fund, opening balance sheet, pro-forma financial statements, reinsurance or retrocession plan, etc);
- management aspects (information on the board of directors and executive management);
- organisational aspects (by-laws, organisational regulations, risk management and other policies, outsourcings and subsidiaries); and
- business rationale, material shareholders, insurance classes and products.

Applications may be filed with FINMA in draft form. FINMA customarily decides on an application within three months of receipt of all of the application documents, although the process may be substantially longer depending on the complexity and quality of the initial draft application.

Before or during the licence application process, the company is formed and entered into the commercial register. For regulatory purposes, the company must have the legal form of a corporation or cooperative. The predominant legal form is the corporation. The founders may determine the specific location within Switzerland based on the local business and tax environment. A company is regularly established with the corporate law minimum share capital of 100,000 Swiss francs and funded up to the relevant regulatory minimum share capital through a capital increase immediately before the licence grant.

Insurers whose domicile is abroad must obtain a licence from FINMA in respect of insurance activities conducted in or from Switzerland (subject to differing provisions in international treaties and, currently, remains the case only with

Liechtenstein). An insurance activity is deemed to be conducted in Switzerland if one of the policyholders or insured persons or the insured risk is located in Switzerland. A FINMA licence is not required for mere reinsurance activities conducted in Switzerland by companies domiciled abroad, or for insurance of marine, air transportation, international transport and war risks, as well as risks located abroad.

To obtain the licence, foreign insurers must:

- set up a branch in Switzerland;
- designate a branch head;
- demonstrate that they are duly licensed and adequately capitalised in their home jurisdiction;
- have an adequate organisational fund in Switzerland; and
- deposit with the Swiss National Bank collateral generally of 10 per cent of the required solvency margin.

Since Switzerland is not part of the European Union or European Economic Area, companies with their domicile in any EU or EEA member state may not conduct business cross-border or through a branch office based on the EU passport principle and home-state regulator regime.

Under the partially revised ISA, which is expected to enter into force in the course of Q3 2023, the scope of application of the ISA will be adjusted and, among others, extended to insurance special purpose vehicles (ie, companies that: are not an insurance undertaking; assume risks from insurance undertakings; and fully hedge the risks by issuing financial instruments, where the redemption or payout claims of the holders or creditors of such financial instruments are subordinate to the risk assumption obligations of the insurance special purpose vehicle). Further, the Federal Council will determine the scope of supervision of insurance companies domiciled abroad for their insurance activities conducted in or from Switzerland. Insurance companies that solely insure professional policyholders (as defined under the Swiss Federal Insurance Contract Act (as amended) (ICA)), intra-group direct insurers and reinsurers ('captives') as well as reinsurance companies will benefit from certain exemptions from supervisory requirements.

Law stated - 24 April 2023

Other licences, authorisations and qualifications

What licences, authorisations or qualifications are required for insurance and reinsurance companies to conduct business?

Once FINMA has licensed a company to conduct insurance or reinsurance business, no further licences, authorisations or qualifications are required as long as the business is carried out in line with the business plan. Amendments to the business plan are subject to FINMA approval.

Law stated - 24 April 2023

Officers and directors

What are the minimum qualification requirements for officers and directors of insurance and reinsurance companies?

The persons entrusted with the ultimate direction, supervision, control and management must enjoy a good reputation and ensure sound business practices. The board of directors must be composed of at least three members who, as a whole, have the necessary insurance expertise, and are able and have enough disposable time to effectively supervise and ultimately direct the company. Board members may not simultaneously be part of the executive management. At

least one-third of the members of the board of directors must be independent. Board members are deemed independent if they:

- are not, and have not, in the previous two years, been employed in some other function within the insurance company or by the insurance company's audit firm, as lead auditor of the regulatory audit responsible for the insurance company;
- have no commercial links with the insurance company that, given their nature and scope, would lead to conflicts of interest; and
- are not a shareholder of the insurance company and do not represent any shareholder.

FINMA may approve exceptions from the foregoing criteria, provided there is good reason to do so (eg, for reinsurance captives or subsidiaries of insurance groups and conglomerates supervised by FINMA).

Insurance companies within Supervisory Categories 2 and 3 (as assigned thereto by FINMA based on their balance-sheet total) must establish audit and risk committees. The chair of the board of directors may not be a member of the audit committee or the chair of the risk committee.

Law stated - 24 April 2023

Capital and surplus requirements

What are the capital and surplus requirements for insurance and reinsurance companies?

The minimum share capital is set by FINMA generally within a range of 5 million to 12 million Swiss francs for life insurers; 3 million to 8 million Swiss francs for non-life insurers; and 3 million to 10 million Swiss francs for third-party reinsurers.

In addition to the minimum share capital requirement, insurers and reinsurers must have sufficient free and unencumbered capital resources concerning their activities (solvency margin).

- To evaluate solvency, the Swiss Solvency Test (SST) is used, which is based on an economic balance sheet and a market-consistent valuation of assets and liabilities. The required capital resources are determined concerning the insurance, market and credit risks (as well as operational risks) to which an insurer or reinsurer is exposed (target capital), and the eligible capital (risk-bearing capital). The SST is recognised by the European Union as being equivalent to its Solvency II regime.
- As per the agreement between Switzerland and the European Union on direct non-life insurance, Swiss non-life insurers are relieved from calculating and reporting Solvency I (or II) in addition to the SST.
- To safeguard the status quo between Switzerland and the United Kingdom, and to ensure a seamless transition of cross-border mutual recognition of solvency regimes post-Brexit, Switzerland and the United Kingdom entered into an agreement replicating the terms of the agreement between Switzerland and the European Union.

Insurers and reinsurers must also have an organisational fund reserved for financing the setting up and any material expansion of business operations. The organisational fund is 20 per cent of the minimum share capital unless FINMA determines otherwise.

Law stated - 24 April 2023

Reserves

What are the requirements with respect to reserves maintained by insurance and reinsurance companies?

Insurers and reinsurers must establish adequate technical reserves to cover their entire insurance activities. Technical reserves are established based on actuarial methods, and the responsible actuary is responsible for ensuring their adequacy. Generally, insurance technical reserves consist of reserves to cover expected liabilities in underwritten insurance contracts; and claims equalisation reserves to account for uncertainties inherent in actuarial projection methods, random fluctuations in insurance losses and claims expenses, and changes in the general environment that may cause the actual claims to materially deviate from the actuarial estimate.

From an equity perspective, Swiss regulation provides that insurers and reinsurers must allocate at least 20 per cent of their annual net profits (10 per cent for life insurers) to the general reserve until this reserve amounts to 50 per cent of the total paid-in nominal share capital. The lower corporate law thresholds do not apply. This requirement limits the ability of insurers and reinsurers to distribute dividends.

Law stated - 24 April 2023

Product regulation

What are the regulatory requirements with respect to insurance products offered for sale? Are some products regulated by multiple agencies?

Swiss insurance and reinsurance regulation sets rules at the company level and does not provide for a systematic and preventive control of insurance products (contract terms and rates), except for products offered in Switzerland in connection with occupational pension plans, supplementary insurance to social health insurance and insurance of damages caused by natural hazards.

Under the partially revised ISA, 'qualified life insurance policies' (ie, life insurance policies, where the policyholder bears a risk of loss in the savings process, as well as capitalisation and tontine transactions) will be subject to additional regulations.

The contractual relationships between insurers and policyholders in Switzerland are governed by the ICA and, supplementary to it, by the Swiss Code of Obligations (as amended) (CO) and the Swiss Civil Code (as amended). The freedom of contract is the governing principle, which is limited by a moderate number of mandatory provisions of the ICA; namely, provisions that may not be modified by insurers at all or not to the disadvantage of policyholders or insured persons.

FINMA is under a duty to intervene against improper market conduct, such as:

- the use of contract terms that violate mandatory provisions of the ICA or other applicable laws;
- the use of contract terms that provide for an allocation of rights and obligations that is significantly contrary to the nature of the contract, provided that such improper market conduct occurs repeatedly or may affect a large number of persons; or
- if a substantial unequal treatment of policyholders is not justifiable by legal or insurance technical reasons.

The creation and use by the insurance industry of common claims expenditure statistics and common insurance contract terms (eg, the standard policy terms of the Swiss Insurance Association) are subject to the rules and

restrictions of Swiss competition law. The Swiss Federal Competition Commission has indicated that its practice is closely aligned with the block-exemption regulations of the European Union.

Law stated - 24 April 2023

Regulatory examinations

What are the frequency, types and scope of financial, market conduct or other periodic examinations of insurance and reinsurance companies?

Insurance companies must currently comply with quarterly financial reporting obligations to FINMA (this has been as short as one month during the financial crisis) as well as several yearly reporting obligations. The yearly reporting obligations include, but may not be limited to, the annual report, annual financial statements, annual supervisory report and annual reports on the Swiss Solvency Test, on tied assets, on the activities of the insurance company relating to financial derivatives and on own risk and solvency. FINMA has the discretion to decide on shorter reporting cycles for the annual reports or to add additional reporting obligations. Further, insurance companies must prepare an annual report on their overall financial situation and solvency, which must be made publicly available.

Insurance companies must have an insurance regulatory auditor that conducts an annual insurance regulatory audit and submits a report to FINMA on such audit. The insurance regulatory auditor also has additional ad-hoc reporting obligations to FINMA for certain critical findings. FINMA may conduct on-site examinations itself or determine that such examinations are to be conducted by the insurance regulatory auditor. In recent years, FINMA has increasingly begun conducting on-site examinations itself.

Law stated - 24 April 2023

Investments

What are the rules on the kinds and amounts of investments that insurance and reinsurance companies may make?

Swiss law contains no overall rules for allowed or disallowed kinds and amounts of investments that insurance and reinsurance companies may make (contrary to the Swiss regulatory regime for pension funds), beyond the general solvency supervision requirement that asset management by insurance and reinsurance companies must be in line with generally recognised best market practices.

However, detailed provisions and rules exist on the types and amounts of assets that the insurance company may assign to its tied assets, as well as on how such tied assets must be managed (not applicable to reinsurance companies as they do not have tied assets). Generally, tied assets must be chosen primarily based on security, the financial situation of the insurance company and the predicted development of the insurance portfolio, whereby a fair market return and appropriate diversification must be sought, while ensuring the foreseeable liquidity requirements at all times (in particular, including various adverse scenarios for which the insurance company must conduct appropriate stress tests).

Generally, the asset categories that may be assigned to an insurance company's tied assets are:

- cash and other money market investments;
- bonds;
- structured products;
- securitised debt and other promissory debt;
- shares (if they are traded in a regulated market and can be sold at short notice);

- real estate in Switzerland owned by the insurance company and participation in real estate companies if the participation amounts to at least 50 per cent;
- debt that is secured by real estate property in Switzerland;
- hedge funds and private equity;
- financial derivatives that serve hedging purposes and are not leveraged;
- participations in collective investment schemes; and
- funds.

Additional specific requirements and restrictions apply to all listed categories under Swiss law and FINMA practice. In particular, the allocation of financial derivatives by insurance companies to their tied assets is especially limited.

Law stated - 24 April 2023

Change of control

What are the regulatory requirements on a change of control of insurance and reinsurance companies? Are officers, directors and controlling persons of the acquirer subject to background investigations?

Swiss law provides that whoever intends to acquire a direct or indirect participation in an insurer or a reinsurer with its domicile in Switzerland must notify FINMA thereof if the thresholds of 10, 20, 33 or 50 per cent of the capital or voting rights will be reached or exceeded by the acquisition. FINMA may prohibit acquisitions or impose conditions if the nature and scope of the participation could endanger the insurance undertaking or the interests of the insured persons. Therefore, acquirers of a material participation must substantiate that they have sufficient resources to finance the transaction and can ensure sound and proper management of the insurer or reinsurer. The members of the board of directors and executive management must pass a fit-and-proper test.

Notification to FINMA is made after signing. Approval or a statement of non-objection by FINMA is customarily a condition precedent to the closing of the sales transaction. FINMA decides within four to eight weeks following receipt of the complete notification documents (however, no statutory time limit applies).

Similar notification duties apply to any person that intends to reduce its participation in an insurer or reinsurer with its domicile in Switzerland if the participation falls below any of the thresholds set out above, and any insurer or reinsurer with its domicile in Switzerland that intends to acquire or sell a participation in any other undertaking and thereby passes any of the thresholds set out above.

Under the partially revised ISA, the foregoing will be slightly adjusted to apply to reductions of both direct and indirect participation (and, thereby, be made congruent to the rules on acquisition).

Also, the insurer or reinsurer itself must report any material change in their shareholder base to FINMA as a business plan change to be filed within 14 days of signing. Such business plan change is deemed approved unless FINMA opens an investigation within four weeks following filing.

Law stated - 24 April 2023

Financing of an acquisition

What are the requirements and restrictions regarding financing of the acquisition of an insurance or reinsurance company?

There are no specific requirements regarding financing of the acquisition of an insurer or reinsurer.

Law stated - 24 April 2023

Minority interest

What are the regulatory requirements and restrictions on investors acquiring a minority interest in an insurance or reinsurance company?

There are no specific requirements regarding investors acquiring a minority interest in an insurance or reinsurance company if the minority does not exceed 10 per cent of share capital or voting rights.

Law stated - 24 April 2023

Foreign ownership

What are the regulatory requirements and restrictions concerning the investment in an insurance or reinsurance company by foreign citizens, companies or governments?

There are no specific insurance regulatory restrictions for foreign, natural or legal persons to acquire an equity participation in an insurer or reinsurer located in Switzerland.

Law stated - 24 April 2023

Group supervision and capital requirements

What is the supervisory framework for groups of companies containing an insurer or reinsurer in a holding company system? What are the enterprise risk assessment and reporting requirements for an insurer or reinsurer and its holding company? What holding company or group capital requirements exist in addition to individual legal entity capital requirements for insurers and reinsurers?

Swiss law contains consolidated frameworks for supervision of both insurance (or reinsurance) groups and conglomerates. Two or more companies constitute an insurance group if:

- at least one is an insurance company;
- they are, as a whole, primarily engaged in the field of insurance; and
- they form an economic unit or are otherwise connected with each other (ie, through influence or control).

Two or more companies constitute an insurance conglomerate if:

- at least one is an insurance company;
- at least one is a bank or securities firm of considerable economic importance;
- they are primarily engaged in the field of insurance; and
- they form an economic unit or are otherwise connected with each other (ie, through influence or control).

FINMA may impose consolidated supervision (but has no obligation to do so) on an insurance group or conglomerate if

a Swiss company is part of such an insurance group or conglomerate and if it is factually managed from Switzerland, or if it is managed from abroad but is not subject to comparable group supervision abroad. If FINMA as well as a foreign regulator both claim total or partial supervisory jurisdiction, FINMA will attempt to find an agreement with the foreign regulator and will consult with the involved Swiss company before making its decision. In practice, FINMA is most interested in the supervision of large groups that have complex structures.

The consolidated supervision by FINMA is supplementary to the individual company supervision. All companies that form part of the supervised group must comply with information requests by FINMA. Supervised insurance groups must provide FINMA with information on their organisation, reporting and management structures at a group level, and FINMA determines one group company to be its counterpart for all regulatory requirements and requests. FINMA must be informed in advance of all-important group internal events ('important internal events' are all those events that involve loans, guarantees, changes to capital, reinsurance transactions, cost-sharing agreements or other risk transfer instruments that significantly impact the financial situation of the group or group companies) and a consolidated report of all important internal events must be prepared every year. FINMA must also be informed in advance of any intended acquisition or sale of a significant participation by any group company. Further, the supervised group must provide FINMA with a report on group-wide risk concentrations and management as well as the results of the group-wide own risk and solvency assessment and on the group-wide Swiss Solvency Test. All these obligations also apply to insurance conglomerates. Insurance groups and insurance conglomerates are required to meet their required solvency margin based on a group-wide Swiss Solvency Test, which must be based on consolidated group figures. With approval by FINMA, a granular group-wide Swiss Solvency Test may be used as an alternative.

As part of the business plan that must be filed with FINMA for an insurance licence, an applicant must inform FINMA of the organisation and the regional scope of business of both the applicant itself and the reinsurance group or conglomerate to which the applicant belongs. The insurance licence can be conditional on the existence of appropriate group supervision by a foreign supervisory authority.

Under the partially revised ISA, additional rules on supervisory instruments, solvency, reporting duties and business plan changes for both insurance groups and insurance conglomerates will be introduced.

Law stated - 24 April 2023

Reinsurance agreements

What are the regulatory requirements with respect to reinsurance agreements between insurance and reinsurance companies domiciled in your jurisdiction?

The principle of freedom of contract prevails in reinsurance. Generally, the terms of reinsurance contracts are valid provided they are not unlawful or against public policy in the sense of the CO. Most importantly, the rules and restrictions of the ICA do not apply to reinsurance contracts.

Law stated - 24 April 2023

Ceded reinsurance and retention of risk

What requirements and restrictions govern the amount of ceded reinsurance and retention of risk by insurers?

Swiss insurance regulation does not per se limit the number of insurance risks that insurers may cede to reinsurers.

However, insurers must, as a rule, continue to account for the full technical reserves for the ceded risks and maintain a pool of tied assets as a function of the gross amount of the full technical reserves (the gross accounting principle). At

the request of insurers, FINMA may allow:

- that claims of non-life insurers against reinsurers under reinsurance contracts are fully or partially admitted as tied assets. The financial strength or rating of the relevant reinsurer is the key factor for FINMA to determine the admissibility of reinsurance claims. Limitations apply in respect of counterparty risks; and
- that life insurers are partially exempt from the gross accounting principle and entitled to reduce their technical reserves after ceding risks to reinsurers.

Law stated - 24 April 2023

Collateral

What are the collateral requirements for reinsurers in a reinsurance transaction?

There are no specific regulatory collateral requirements for reinsurers in reinsurance transactions. If, however, a reinsurance claim is secured by collateral or another security, cedents may, subject to FINMA's approval, be in a position to either procure reinsurance coverage from unrated reinsurers or allocate a larger portion of the reinsurance claim to their tied assets.

Law stated - 24 April 2023

Credit for reinsurance

What are the regulatory requirements for cedents to obtain credit for reinsurance on their financial statements?

Swiss law does not limit the creditability of reinsurance for insurance companies on their financial statements overall. However, certain limitations apply for the recognition and process of crediting reinsurance to tied assets. Separately, any reinsurance or retrocession of risks is fully credited to the target capital under the Swiss Solvency Test within the scope of the actual quantifiable risk transfer. The risk of default of the reinsurance provider is reflected in the calculation of the target capital.

Law stated - 24 April 2023

Insolvent and financially troubled companies

What laws govern insolvent or financially troubled insurance and reinsurance companies?

In the event of an insolvency of an insurer or a reinsurer with its domicile in Switzerland, the provisions of the Swiss Debt Enforcement and Bankruptcy Act (as amended) (DEBA) apply to the extent that the ISA does not provide otherwise. Based on the ISA, FINMA issued the Insurance Bankruptcy Ordinance (as amended) (IBO) with the following main features:

- FINMA will revoke the licence and initiate bankruptcy proceedings in the case of a substantiated concern of over-indebtedness or serious liquidity problems of an insurer or reinsurer, and where there are no prospects of reorganisation or a failure of the same;
- FINMA will nominate and supervise one or several bankruptcy liquidators;
- FINMA convenes creditors' meetings and appoints creditors' committees on the liquidator's request; and
- insurance claims set out in the books of the insurer or reinsurer are deemed to have been submitted in the bankruptcy proceedings.

In the event of non-compliance by an insurer or reinsurer with the law or an order of FINMA, or any other endangerment to the interests of insured persons, FINMA may adopt protective measures as necessary (and proportionate) to safeguard the interests of the insured persons, such as the following:

- prohibit the unrestricted disposition of the insurer's or reinsurer's assets;
- order the deposit or blocking of assets;
- assign authority from directors and officers to a third person;
- assign insurance or reinsurance portfolios to a third party (with the consent of the third party);
- order the liquidation of tied assets;
- request the dismissal of the accountable actuary or any person entrusted with the ultimate direction, supervision, control or management, and prohibit them from engaging in any insurance activity for up to five years;
- assign assets to the tied assets; and
- order the extension of payment terms and adjournment of due dates in the event of financial distress.

Under the partially revised ISA, the regime applicable to financially troubled insurance undertakings will be significantly restructured. In particular, FINMA will have the possibility to first issue protective measures (ie, deferral of payments and maturity postponements) or initiate restructuring procedures before initiating bankruptcy proceedings. FINMA may also decide to issue protective measures in parallel to a restructuring procedure or bankruptcy proceedings. The instruments at the disposal of FINMA to first try to save a financially troubled insurance undertaking will be extended significantly and be detailed directly on the level of the partially revised ISA. Subsidiary, and only in case of actual bankruptcy proceedings, the provisions of the DEBA and the IBO will apply.

Law stated - 24 April 2023

Claim priority in insolvency

What is the priority of claims (insurance and otherwise) against an insurance or reinsurance company in an insolvency proceeding?

The insolvency of an insurance or reinsurance company licensed by FINMA is subject to a separate and specific insolvency procedure managed directly by FINMA under the IBO, with additional specific rules for foreign insurance companies in Switzerland. FINMA has substantial discretion to deviate from the applicable general Swiss law rules in the insolvency proceedings of an insurance company. In short, general Swiss law on insolvency foresees that the claims of secured creditors are satisfied out of the net proceeds from the realisation of the collateral, whereas for unsecured creditors, Swiss law distinguishes three classes of creditors that are satisfied in order of priority, with the class next in priority only receiving the remaining surplus after satisfaction of all claims of the prior class.

Additionally, certain specific rules apply regarding the priority of claims. In the insolvency of an insurance company, the costs of the insolvency proceeding itself are satisfied first, followed by the claims of policyholders that result from the books of the insurance company to the extent they are covered by the proceeds of the liquidation of tied assets (not applicable to the insolvency of a reinsurance company because it does not have tied assets). Any surplus falls into the general bankruptcy estate, and any shortfall is allocated to one of the three general creditor classes. This mechanism does not automatically apply to life insurance policies that are secured by tied assets, for which FINMA may decide on a separate procedure.

Under the partially revised ISA, claims of policyholders arising from insurance contracts will be assigned to the second general creditor class pursuant to the DEBA, but only be satisfied from the bankruptcy estate after all other claims of

such second creditor class have been satisfied.

Law stated - 24 April 2023

Intermediaries

What are the licensing requirements for intermediaries representing insurance and reinsurance companies?

Insurance intermediaries are persons offering or concluding insurance contracts on behalf of insurance undertakings in the interest of such insurance undertakings or other persons (eg potential insureds).

A registration duty applies to untied insurance intermediaries, defined as insurance intermediaries that are independent of any insurance undertaking in the legal sense (eg, that do not have an exclusive distribution agreement) and in the economic sense (eg, that do not achieve the majority of commissions from one or two insurance undertakings in any calendar year). Tied insurance intermediaries (ie, all other dependent insurance intermediaries) are entitled but not obliged to register themselves. The register is public and accessible online. A registration requires sufficient professional qualifications of the insurance intermediary or, if the insurance intermediary is a legal entity, its personnel, and professional indemnity insurance that covers damages of up to at least 2 million Swiss francs per year or equivalent financial security.

For natural persons, registration also requires the provision of an extract from the criminal register that must not contain entries involving activities incompatible with the business of an insurance intermediary and an extract from the debt enforcement register that must not contain references to outstanding certificates of unpaid debts whose underlying claim is incompatible with the business of an insurance intermediary.

Insurance intermediaries are required to inform prospects of their identity, their ties to insurers and the processing of personal data. They may not engage in any intermediary activities in Switzerland for the benefit of insurance undertakings that are subject to a licensing requirement but have not been granted a licence from FINMA.

Under the partially revised ISA, the definitions will be amended such that untied insurance intermediaries are only those intermediaries that are in a fiduciary relationship with the policyholders and that act in their interest, whereas any other intermediary will be considered a tied insurance intermediary. The registration duty will continue to apply only to untied insurance intermediaries (but tied insurance intermediaries are in general no longer entitled to register themselves). However, the general rules on all insurance intermediaries (ie, both tied and untied) will be extended (such as with respect to continuing education, information duties, prevention of conflict of interests, disclosure of kickbacks) and parallel activity as a tied and untied insurance intermediary will be prohibited.

Law stated - 24 April 2023

INSURANCE CLAIMS AND COVERAGE

Third-party actions

Can a third party bring a direct action against an insurer for coverage?

The obligations of insurers under insurance policies are generally only towards policyholders and insured persons. Direct actions of third parties in general require a basis in the insurance policy or statutory law, such as:

- motor liability insurance (article 65 of the Swiss Federal Road Traffic Act (as amended) (the Road Traffic Act));
- liability insurance for fuel and gas pipes (article 37 of the Swiss Federal Pipeline Act); and
- nuclear energy liability insurance (article 17 of the Swiss Federal Nuclear Energy Liability Act).

However, an injured third party (or its legal successor) has a general right to assert a claim directly against the liability insurer, without the need for a further legal basis in specific laws, subject to any defences the insurer may have under statutory law or the relevant policy.

Law stated - 24 April 2023

Late notice of claim

Can an insurer deny coverage based on late notice of claim without demonstrating prejudice?

On the occurrence of the insured event, rightful claimants (eg, policyholders or insured persons) must notify insurers of the insured event as soon as they become aware of the event and their insurance claim. Notification must be made in writing if the insurance policy so provides.

If the rightful claimant has omitted the immediate notice:

- with the intention of preventing the insurer from establishing the circumstances of the insured event in a timely manner, the insurer is not bound by the insurance policy and may deny coverage;
- with (gross or light) negligence, the insurer may reduce its coverage by the amount the damage would have been reduced in the case of a timely notice; and
- without any attributable fault, the notice can be made to the insurer immediately on removal of the hindering circumstances without loss of coverage.

Law stated - 24 April 2023

Wrongful denial of claim

Is an insurer subject to extra-contractual exposure for wrongful denial of a claim?

Punitive damages are not available under Swiss law. Except in very exceptional circumstances, an insurer wrongfully denying cover does not run a risk of being held liable based on statutory law. If a court finds that the cover was wrongfully denied, the insurer must settle the claim, including any damages incurred by the delayed settlement as well as the rightful claimant's legal expenses.

Law stated - 24 April 2023

Defence of claim

What triggers a liability insurer's duty to defend a claim?

Insurance policies customarily stipulate that:

- the insurer must indemnify the insured person from justified third-party claims as well as costs and expenses to defend unjustified third-party claims, to the extent covered by the insurance policy;
- the insurer may handle the claims (which exceed the deductible amount) and, in particular, represent the insured person in the negotiations with the injured person; and
- the insured person must assign the necessary authority to the legal representative determined by the insurer if legal proceedings are instigated, and refrain from acknowledging a claim without the prior consent of the insurer or raising actions that contravene the provisions of the policy.

Indemnity policies

For indemnity policies, what triggers the insurer's payment obligations?

The insurer must settle a claim if it has finally established the occurrence of an insured event and the amount of the respective damage. Indemnification payments will not become due and payable provided the policyholder has not provided all information reasonably requested by the insurer regarding the event and necessary to assess the claim. If the insurer has been provided with all relevant information, the indemnification payments will become due and payable four weeks thereafter (even if the insurer has not made its final assessment by that date). If the policyholder provides all relevant information to a single part of an insurance claim, this part will become due within the same period. In the event of an acknowledgement of the claim by the insurer, the insurance claim becomes immediately due and payable. If the insurer contests its payment obligation, the insured may request partial payments to be made by the insurer up to the undisputed amount. The same applies if it is not clear how the payment is to be divided among several insureds.

A contractual clause that provides that an insurance claim becomes due only after being acknowledged by the insurer or upheld by a court decision is null and void.

Law stated - 24 April 2023

Incontestability

Is there a period beyond which a life insurer cannot contest coverage based on misrepresentation in the application?

There is no incontestability period under the ICA. The insurer may, in general, contest coverage based on misrepresentation in the application at any time, subject to the rules set out below:

- if the policyholder omits to notify or incorrectly notifies the insurer of a significant risk factor that he or she knew or should have known about, which he or she was questioned in writing, the insurer is entitled to terminate the insurance policy – the policyholder must not necessarily be questioned in writing and such questioning may be conducted in any other form evidenced by text;
- the termination right expires four weeks after the insurer has obtained knowledge of the breach of the notification duty; and
- if the insurer terminates the contract, its obligation to indemnify the policyholder for damage ceases (and the insurer may rightfully contest coverage and claim back payments made) if, and to the extent that, the omitted or incorrect notification of the significant risk factor has influenced the occurrence or extent of the damage.

If a life insurance policy that may be surrendered terminates, the insurer must provide to the insured person the benefits due in the event of surrender.

Law stated - 24 April 2023

Punitive damages

Are punitive damages insurable?

Punitive damages are not available under Swiss law. Further, Swiss courts may be precluded from awarding punitive

damages even if the applicable foreign substantive law provides for those damages owing to Swiss public policy or if in connection with product liability according to article 135, paragraph 2 of the Swiss Federal Private International Law Act (as amended).

Law stated - 24 April 2023

Excess insurer obligations

What is the obligation of an excess insurer to 'drop down and defend', and pay a claim, if the primary insurer is insolvent or its coverage is otherwise unavailable without full exhaustion of primary limits?

Swiss statutory law does not provide for 'drop down' of insurance coverage of an excess insurer if the primary insurer is insolvent or its coverage is otherwise unavailable without full exhaustion of primary limits. Unless otherwise agreed in the policy, the excess insurer is liable towards the policyholder only for its own share and entitled to provide for its own defence, regardless of the primary insurer's insolvency.

Law stated - 24 April 2023

Self-insurance default

What is an insurer's obligation if the policy provides that the insured has a self-insured retention or deductible and is insolvent and unable to pay it?

Swiss law does not regulate retainer amounts or deductibles. Deductibles are commonly agreed in Switzerland. Insurance policies customarily contain the right of insurers to pay out the full indemnification amount directly to injured persons, and to request policyholders to reimburse without objection any deductible not applied. Insurers ultimately bear the risks that policyholders become insolvent and thus are unable to repay the deductible. Self-insured retentions are not customary in Switzerland.

Law stated - 24 April 2023

Claim priority

What is the order of priority for payment when there are multiple claims under the same policy?

There is no general Swiss law rule as to the priority for payment for multiple claims under the same insurance policy. Under the Road Traffic Act, if the policyholder caused damage to several persons, which in total exceeds the insured sum set out in the insurance policy, the claim of each injured person against the insurer is reduced proportionally, and the insurer or the initial claimant may cause the competent court to request other injured persons to raise their claims in the same court proceedings.

Law stated - 24 April 2023

Allocation of payment

How are payments allocated among multiple policies triggered by the same claim?

Both cumulation (ie, the insured receives multiple payments based on multiple policies) and coordination (ie, the insured receives only one payment based on multiple policies) exist in Swiss law depending on the type of insurance

policy triggered by a claim and the interaction with coverage of the same claim by other liable persons.

For indemnity insurance, if a policyholder has obtained cover for the same risk from more than one insurer, and if the total cover exceeds the insurance value (multiple insurances), the policyholder must notify this to each insurer in writing or, in any other form evidenced by text (and the insurer may deny coverage if he or she does not do so with the intention of obtaining an unlawful monetary advantage), and each insurer is liable only proportionally (individual cover divided by the total cover) while being entitled to the entire agreed premium. Only if an insurer becomes insolvent are the other insurers liable for the insolvent insurer's share proportionally to their insured sums, each to the extent of the insured sum. Further, an indemnity insurer may also deny coverage in the case of double insurance in bad faith by the insured with the intent of obtaining an unlawful monetary advantage.

If the policyholder is at the time of conclusion of another insurance contract not aware of the occurrence of multiple insurance, he or she may terminate the contract leading to such multiple insurances within four weeks of respective discovery.

Law stated - 24 April 2023

Disgorgement or restitution

Are disgorgement or restitution claims insurable losses?

Swiss law is silent on whether claims comparable to disgorgement or restitution under Swiss law (ie, claims that involve a repayment of profits gained in bad faith on the part of the insured party) are insurable. Although the loss of profit can be insured, the law is silent on whether this is also the case if such profits were made in bad faith. Generally, gross negligence can be (and regularly is) insured, while intent can be insurable (but is insured only in very rare circumstances), but there is a risk under Swiss law that insurance of intent or claims caused in bad faith may be considered contrary to general principles of law or public policy, similar to the insurance of monetary fines, which is not permissible.

Law stated - 24 April 2023

Definition of occurrence

How do courts determine whether a single event resulting in multiple injuries or claims constitutes more than one occurrence under an insurance policy?

Whether a single event resulting in multiple injuries or claims constitutes one or more occurrences under a policy is determined by courts based on an interpretation of the applicable insurance policy. Insurance policies under Swiss law regularly include wording to the effect that a single event resulting in multiple claims constitutes only one occurrence under the policy.

Law stated - 24 April 2023

Rescission based on misstatements

Under what circumstances can misstatements in the application be the basis for rescission?

An insurer may withdraw from a contract if the insured has made misstatements after the conclusion of the insurance contract. This is the case if the insured has miscommunicated or withheld a significant risk. The insurer has a right of rescission even when the insured is not at fault for the misstatement. The insurer must give notice of rescission in writing or, in any other form evidenced by text, within four weeks after it has received knowledge of the misstatement.

REINSURANCE DISPUTES AND ARBITRATION

Reinsurance disputes

Are formal reinsurance disputes common, or do insurers and reinsurers tend to prefer business solutions for their disputes without formal proceedings?

It is common practice to agree on arbitration clauses in reinsurance contracts. Arbitral tribunals continue to be the most suitable means for differences that cannot be resolved amicably because of the important role that custom (long-standing market practice) plays in the reinsurance industry, the parties' common interest in confidentiality and the worldwide enforceability of arbitration awards under the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (as amended).

Law stated - 24 April 2023

Common dispute issues

What are the most common issues that arise in reinsurance disputes?

Common issues that arise in reinsurance disputes are:

- misrepresentation;
- insured event definition and permissibility of aggregation;
- limitations of the follow-the-fortunes and follow-the-settlement principles; and
- contract interpretation issues.

Law stated - 24 April 2023

Arbitration awards

Do reinsurance arbitration awards typically include the reasoning for the decision?

The arbitral award must be made by the arbitral tribunal under the rules of procedure and in the form agreed on by the parties. The award must be in writing, reasoned, dated and signed (the signature by the chair of the arbitral tribunal is sufficient) (article 189 of the Private International Law Act (as amended) (PILA)). The reasoning requirement may be waived by the parties (eg, for reasons of cost efficiency). However, the award typically includes the reasoning because the arbitrators' written considerations on the merits are an important element for the parties to appeal against an award.

Unless otherwise agreed, either party may apply to the arbitral tribunal within 30 days of the award to correct certain errors in or explain specific parts of the award or to issue a supplementary award concerning claims made in the arbitration proceedings that were not considered in the award. The arbitral tribunal may itself make corrections, explanations or additions within the same period (article 189a of the PILA).

Law stated - 24 April 2023

Power of arbitrators

What powers do reinsurance arbitrators have over non-parties to the arbitration agreement?

Arbitrators have no direct jurisdiction over non-parties; however, they can request the support of courts in taking evidence. Courts, in turn, can make use of their powers and assist the arbitral tribunal, for example, by compelling non-parties to provide testimony or to produce documents (article 184 of the PILA).

Law stated - 24 April 2023

Appeal of arbitration awards

Can parties to reinsurance arbitrations seek to vacate, modify or confirm arbitration awards through the judicial system? What level of deference does the judiciary give to arbitral awards?

In international arbitration, arbitral awards may be brought before the Swiss Federal Supreme Court and set aside for the following exhaustive grounds (article 190 paragraph 2 in conjunction with article 191 of the PILA):

- the arbitral tribunal has been incorrectly constituted (or the sole member of the arbitral tribunal improperly appointed);
- the arbitral tribunal has wrongly assumed or denied jurisdiction;
- the arbitral tribunal has decided beyond the claims submitted to it or failed to decide one of the claims;
- the principle of equal treatment of the parties or their right to be heard in an adversary procedure (due process) has been breached; or
- the award is incompatible with public policy.

Additionally, arbitral awards may be reviewed for the following exhaustive grounds (article 190a paragraph 1 in conjunction with article 191 of the PILA):

- a party has subsequently become aware of significant facts or uncovered decisive evidence that it could not have produced in the earlier proceedings despite exercising due diligence (does not apply to facts or evidence that came into existence after the award was issued);
- criminal proceedings have established that the arbitral award was influenced to the detriment of the party concerned by a felony or misdemeanour, even if no one is convicted by a criminal court (if criminal proceedings are not possible, proof may be provided in some other manner); or
- grounds for a challenge of a member of the arbitral tribunal (ie, circumstances that give rise to legitimate doubt as to his or her independence or impartiality) only came to light after the conclusion of the arbitration proceedings despite exercising due diligence and no other legal remedy is available.

Given the limited number of grounds on which an award may be sought to be set aside or reviewed, these remedies are not a further appeal.

The parties may wholly or partially exclude all appeals against arbitral awards (or limit such proceedings to one or several grounds set out in article 190 paragraph 2 of the PILA; however, the right to a review based on the second ground may not be waived) by a declaration in the arbitration agreement or by a subsequent agreement, provided that none of the parties has its domicile, habitual residence or seat in Switzerland (article 192 paragraph 1 of the PILA).

Law stated - 24 April 2023

REINSURANCE PRINCIPLES AND PRACTICES

Obligation to follow cedent

Does a reinsurer have an obligation to follow its cedent's underwriting fortunes and claims payments or settlements in the absence of an express contractual provision? Where such an obligation exists, what is the scope of the obligation, and what defences are available to a reinsurer?

The Insurance Contract Act (ICA) does not apply to reinsurance contracts. The general provisions of contract law set out in the Swiss Code of Obligations (CO) apply. Further, Swiss legal practice and doctrine provide that in the absence of a contractual provision, a competent court will interpret reinsurance contracts based on generally recognised reinsurance custom and standards. In particular, the paramount principles of reinsurance (eg, follow-the-fortunes, follow-the-settlement and the reinsurer's right to inspect the cedent's file) are considered to be implied in reinsurance contracts and applicable also in the absence of a specific clause relating thereto. As to the content of the reinsurance principles, no relevant specific Swiss customary practice exists, and a competent Swiss court also takes foreign legal doctrine and case law into account.

Generally, the reinsurer is obliged to share the fate of the underlying risks accepted by the cedent (follow-the-fortunes) and to accept as binding the decisions and measures taken by the cedent under its right to manage the reinsured business (follow-the-settlement); however, only to the extent that the claim falls within the scope of the reinsurance agreement and the cedent has managed the business in an orderly and prudent manner.

Law stated - 24 April 2023

Good faith

Is a duty of utmost good faith implied in reinsurance agreements? If so, please describe that duty in comparison to the duty of good faith applicable to other commercial agreements.

The principle of utmost good faith is regarded as a reinsurance custom in Switzerland. Utmost good faith is an accentuated version of the general principle of good faith (ie, that rights are exercised and obligations fulfilled in good faith (article 2 paragraph 1 of the Swiss Civil Code)). It is justified by the special relationship of trust between the parties to a reinsurance agreement, and critical to determining the care and loyalty due in connection with, for example, the risk selection and claims management by the cedent.

Law stated - 24 April 2023

Facultative reinsurance and treaty reinsurance

Is there a different set of laws for facultative reinsurance and treaty reinsurance?

The same set of Swiss statutory laws applies to facultative and treaty reinsurance. Differences between facultative and treaty reinsurance are, however, taken into account according to reinsurance custom (eg, the principle of utmost good faith seems to have more relevance in treaty reinsurance than in facultative reinsurance).

Law stated - 24 April 2023

Third-party action

Can a policyholder or non-signatory to a reinsurance agreement bring a direct action against a reinsurer for coverage?

There is no contractual or statutory basis for a direct claim of the policyholder against the reinsurer. The reinsurance agreement may allow policyholders to do so; this is usually referred to as a 'cut-through' clause.

Law stated - 24 April 2023

Insolvent insurer

What is the obligation of a reinsurer to pay a policyholder's claim where the insurer is insolvent and cannot pay?

Policyholders have no direct claim against the reinsurer even if the direct insurer is insolvent or not able to provide coverage for other reasons.

The insurer's claim against the reinsurer to compensate for covered losses may form part of the tied assets of the insurer. If the insurer falls into bankruptcy, the tied assets are liquidated and the proceeds are used to cover the rights and claims of the policyholders.

Law stated - 24 April 2023

Notice and information

What type of notice and information must a cedent typically provide its reinsurer with respect to an underlying claim? If the cedent fails to provide timely or sufficient notice, what remedies are available to a reinsurer and how does the language of a reinsurance contract affect the availability of such remedies?

Swiss law is silent on this matter. The nature and scope of the cedent's obligation to notify the reinsurer of a loss event mainly depends on the terms of the reinsurance contract. In the absence of contractual provisions to the contrary, the notification must be provided in due course, while any delay does not necessarily lead to a loss of the cedent's right to be compensated for covered losses.

Law stated - 24 April 2023

Allocation of underlying claim payments or settlements

Where an underlying loss or claim provides for payment under multiple underlying reinsured policies, how does the reinsured allocate its claims or settlement payments among those policies? Do the reinsured's allocations to the underlying policies have to be mirrored in its allocations to the applicable reinsurance agreements?

The allocation of claims and settlement payments of the reinsured depends on the terms of the reinsurance agreement.

Law stated - 24 April 2023

Review

What type of review does the governing law afford reinsurers with respect to a cedent's claims handling, and settlement and allocation decisions?

The equivalent to the cedent's right to manage the insurance business is the reinsurer's right to audit the cedent's files in connection with any relevant claim. The reinsurer's inspection right is a generally recognised reinsurance custom and applicable also in the absence of a specific clause relating thereto. The cedent is also obliged to give the reinsurer access to information on the management of the reinsured business based on Swiss contract law (article 394 et seq of the CO).

Law stated - 24 April 2023

Reimbursement of commutation payments

What type of obligation does a reinsurer have to reimburse a cedent for commutation payments made to the cedent's policyholders? Must a reinsurer indemnify its cedent for 'incurred but not reported' claims?

Swiss law is silent as to whether a reinsurer is obliged to follow the cedent's settlement of reinsurance claims by way of commutation. The follow-the-settlement principle applies. The cedent is generally well advised to obtain the reinsurer's consent before entering into commutation agreements.

Law stated - 24 April 2023

Extracontractual obligations (ECOs)

What is the obligation of a reinsurer to reimburse a cedent for ECOs?

Swiss law is silent as to whether a reinsurer must reimburse a cedent for ECOs; this depends on the terms of the reinsurance agreement.

Law stated - 24 April 2023

UPDATES & TRENDS

Key developments

Are there any emerging trends or hot topics in insurance and reinsurance regulation in your jurisdiction?

In March 2022, the Swiss parliament adopted the partial revision of the Insurance Supervision Act (revISA). The corresponding referendum period expired unused on 7 July 2022.

The revISA strengthens the competitiveness and innovativeness of the Swiss insurance sector and the Swiss financial marketplace as a whole.

Among others, such partial revision introduces:

- the extension of the scope of application to insurance special purpose vehicles;
- that the Federal Council determines the scope of supervision of insurance companies domiciled abroad for their

insurance activities conducted in or from Switzerland;

- the possibility of client categorisation and related reliefs from supervisory requirements (if solely professional policyholders are insured);
- certain exemptions from supervisory requirements for captive direct insurers and reinsurers;
- additional rules on supervisory instruments, solvency, reporting duties and business plan changes for insurance groups and conglomerates;
- extended duties for insurance intermediaries;
- a whole new regime to deal with financially troubled insurance undertakings, whereby the Swiss Financial Market Supervisory Authority will be able to issue protective measures or initiate restructuring procedures before actually initiating bankruptcy proceedings; and
- new conduct and information duties analogous to the provisions of the Financial Services Act in case of distribution of certain insurance products with an investment character ('qualified life insurance policies').

Although the revISA is final, the revised implementing ordinance (revISO) has only gone through consultation (which ended in September 2022) and is therefore not yet final. The revISA and (finalised) revISO are expected to enter into force in the course of Q3 2023. The Federal Council will determine the exact date of entry into force, once the revISO is final.

The Swiss Financial Market Supervisory Authority FINMA has already indicated that due to the revision of the Insurance Supervision Act and the Insurance Supervision Ordinance, FINMA will also revise various insurance-related circulars (without indicating which ones). FINMA plans to submit them to consultation in the course of Q3 2023 (with entry into force presumably in the course of Q3 2024).

Law stated - 24 April 2023

Jurisdictions

	China	Jincheng Tongda & Neal
	Denmark	Poul Schmith/Kammeradvokaten
	Germany	Clyde & Co LLP
	Gibraltar	Hassans
	India	Tuli & Co
	Israel	Kennedys Law LLP
	Japan	Nagashima Ohno & Tsunematsu
	South Korea	Yoon & Yang LLC
	Spain	Bird & Bird LLP
	Sweden	Advokatfirman Hammarösköld
	Switzerland	Lenz & Staehelin
	Turkey	Cavus & Coskunsu Law Firm
	United Kingdom	Debevoise & Plimpton
	USA	Sullivan & Cromwell LLP
	Vietnam	LNT & Partners