# Circular 2025/3
# Liquidity – insurers

## Liquidity management, risk management and reporting

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**Addressees** (indicative)

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| Banks | Financial groups and congl. | Persons under Article 1*b* BA | Other intermediaries | Insurers | Insurance groups and congl. | Intermediaries | Portfolio managers | Trustees | Managers of collective assets | Fund management companies | Investment firms (proprietarian trading) | Investment firms (non propriet. trading) | Trading venues | Central counterparties | Central securities depositories | Trade repositories | Payment systems | Participants | SICAVs | Limited partnerships for CISs | SICAFs | Custodian banks | Representatives of foreign CISs | Other intermediaries | SROs | SRO-supervised institutions | Audit firms | Rating agencies |
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# I. Subject matter

This circular expands on the provisions of the Insurance Supervision Act of 17 December 2004 (ISA; SR *961.01*) and the Insurance Supervision Ordinance of 9 November 2005 (ISO, SR *961.011*) concerning liquidity risk management (Art. 22 ISA, Arts. 96 and 97 ISO), liquidity needs (Art. 98*a* paras. 1–3 ISO) and reporting to FINMA (Art. 98*a* para. 4 ISO). 1

# II. Scope of application

This circular applies to insurance companies domiciled in Switzerland (Art. 2 para. 1 let. a ISA) and to insurance groups and insurance conglomerates (Art. 2 para. 1 let. d ISA). Unless otherwise stated, insurance companies, insurance groups and insurance conglomerates are referred to collectively as “insurers”. 2

The margin numbers apply to branches of insurance companies domiciled abroad (Art. 2 para. 1 let. b ISA, branches) if explicit reference is made to them. 3

# III. Proportionality

Insurers organise liquidity management according to their size, the complexity of their business activities and their specific exposure to liquidity risks. The circular allows for proportional and risk-oriented implementation. 4

# IV. Definition of terms

*Liquidity risk:* Risk that the insurer will no longer be able to fulfil its current and future payment obligations in full or on time (risk of inability to pay). 5

*Liquidity balance sheet:* Statement of the cumulative inflows and outflows of liquidity in a specific period. 6

*Liquidity needs:* A positive liquidity need results when the cumulative liquidity outflows exceed the cumulative inflows in a specific period. 7

*Liquidity potential:* Cash and cash equivalents that can be generated in a specific period to cover liquidity needs. The assets making up the liquidity potential are determined by the insurers based on their business and risk strategy and taking into account regulatory or other mandatory requirements. 8

*Liquidity position:* The liquidity positions result from the liquidity balance sheet and the liquidity potential in a specific period. 9

*Liquidity coverage ratio:* Ratio between the realisable liquidity reserves (highly liquid assets) or the total liquidity potential and the liquidity needs in a specific period. 10

*Risk appetite:* The willingness to accept risks within the limitations defined by the business strategy. 11

*Stress tests:* Significant risk drivers and their impact on liquidity positions are analysed over a specific period, assuming a strong adverse development of one or more input 12

parameters that have a certain probability of occurring. *Reverse stress tests* start from a defined outcome and then ask what input parameters could lead to such an outcome.

*Scenario analysis:* The effects of a possible change in external and internal company conditions are analysed. More complex (key) factors with different dependencies and their effects on the liquidity situation are analysed in quantitative and/or qualitative terms over a specific period. 13

*Centralised liquidity management:* All forms of intragroup management and provision of liquidity or intragroup liquidity facilities (in particular *cash pooling*). 14

# V. Requirements

## A. Governance

Insurers shall document the organisational and operational structure as well as the reporting lines in relation to liquidity management/risk management. They shall document the tasks, competencies and responsibilities of the board of directors including its committees, the executive board, the independent control units or functions, the internal audit function and other relevant business or organisational units for the identification, assessment, management, monitoring and reporting of liquidity risks. If responsibilities are shared, the tasks, competences and responsibilities must be clearly assigned and the internal reporting channels and overall responsibility must be defined. 15

The board of directors shall approve and review the strategy and important principles in connection with liquidity management. It shall define and approve the general risk appetite and ensure that the executive board takes the necessary measures to identify, assess, manage and monitor liquidity risk. 16

The executive board shall report regularly on the liquidity situation and – based on the defined risk appetite – report significant negative changes or deviations in the current or expected liquidity position to the board of directors without delay. 17

In the case of branches, the general agent must be informed about the risk appetite and the defined risk strategy for the branch’s business activities. The general agent must be involved in the regular internal reporting on the liquidity situation with regard to the business activities of the branch. 18

## B. Liquidity management and liquidity planning

Insurers shall consider future strategic liquidity needs based on the business strategy and exogenous conditions at least once a year in connection with capital planning. The future financing of business activities and, in particular, the replacement of existing sources of financing must be planned. In the event of significant changes, strategic liquidity planning must be reviewed and adjusted if necessary. 19

Insurers shall plan and assess liquidity positions on a forward-looking basis over a horizon of one year and, except in justified cases, also over a horizon of one month. They shall take into account the liquidity inflows and outflows from operating activities, investment activities, and financing activities. Depending on the business activity and exposure to liquidity risks, they shall take into account further planning horizons of less 20

than one year. Insurers with volatile liquidity flows shall take this into account appropriately when determining the planning horizons. Insurers with business activities or positions with possible very short-term and high liquidity outflows shall set a correspondingly short planning horizon. If planning is not carried out on a rolling basis, significant changes must be taken into account in the longer-term planning horizons.

Planning uncertainties must be taken into account by appropriately increasing the provision of liquidity potential. If it is not possible or difficult to plan for individual, volatile, short-term and significant cash outflows, appropriate additional liquidity reserves must be provided, with a high level of safety based on stress tests. 21

Insurers with significant liquidity flows in different currencies shall take account of exchange rate risks, which result in particular from currency mismatches, as well as possible operational restrictions using appropriate, documented methods. Adequate additional liquidity reserves must be provided to hedge against currency risks and operational restrictions. 22

Probable cash inflows from assets making up the liquidity potential may not be recognised simultaneously as liquidity inflows in the liquidity balance sheet and in the liquidity potential in the respective planning horizon. 23

Insurers shall use appropriate, documented methods to estimate future liquidity inflows and outflows in the liquidity balance sheet for the various planning horizons. The assessment of future cash flows must be reviewed regularly (at least annually), compared with the liquidity planning and documented. 24

The assets making up the liquidity potential must be categorised into at least the following categories, dependent on their maturity and marketability: 25

1. Highly liquid assets that are available at very short notice with very few operational restrictions and without discounts, as well as eligible assets, provided the insurer has direct access to the money market via the central bank or via a trading platform on which the central bank operates. 26
2. Liquid, marketable assets that are traded regularly and are available at short notice, possibly at a discount. 27
3. Other, less liquid assets that can be used to cover a liquidity gap in the medium term, whereby changes in value must be adequately taken into account, for example with sufficient haircuts. 28

Existing liquidity facilities (credit lines, liquidity pools/cash pooling, abstract/unconditional guarantees, etc.) can be taken into account as liquidity potential as part of regular liquidity planning, provided they are likely to be available in the corresponding planning horizon. If collateral has to be provided, this cannot be simultaneously recognised as liquidity potential. 29

Other refinancing options can be appropriately taken into account as part of ordinary liquidity planning, provided they are likely to be available within the corresponding planning horizon. If collateral has to be provided, this cannot be simultaneously recognised as liquidity potential. 30

Insurers shall value the assets of the liquidity potential prudently and take appropriate account of changes in their value, for example by applying sufficient haircuts. The appropriate amount of the assets, their composition and diversification as well as their valuation (including any haircuts), and the assumptions regarding the transferability or operational provision of the assets or collateral shall be reviewed regularly (at least annually), and shall be compared with the liquidity planning and documented. 31

Insurers shall document rules, responsibilities and processes as to how the liquidity reserves or the existing liquidity potential are to be made available to cover a liquidity need in accordance with the categorisation. 32

The internal and external operational processes for the timely provision of liquidity reserves or liquidity potential must be taken into account as part of liquidity planning, depending on the horizon used for liquidity planning. 33

Insurers in a group with centralised liquidity management shall define and document in particular: 34

- The contractual responsibilities, obligations, conditions, cancellation and exclusion possibilities of all parties involved, and 35
- the liquidity transfer prices in line with market conditions. 36

Liquidity planning must be appropriately documented. The liquidity flows planned at the beginning of the planning horizons and the corresponding change in the liquidity potential (planned values) must be compared with the actual conditions at the end of the planning horizons (actual values). 37

If, in addition to central bank money, the business activity also encompasses other cash equivalents (monetary surrogates, cryptocurrencies, etc.), the provisions and in particular margin no. 22 shall apply accordingly. 38

In relation to branches, margin nos. 19–33 and 37–38 shall apply by way of analogy. 39

## C. Liquidity reserve

Insurers shall hold adequate liquidity reserves of highly liquid assets (margin no. 26) in order to bridge short-term liquidity needs. They may also hold other suitable liquid assets (margin no. 27) in the liquidity reserve. In doing so they shall take into account proper liquidity planning and possible stress situations. 40

The insurer shall ensure that the liquidity reserve consists of assets 41

- that, based on liquidity planning, are sufficient in relation to the business model and the extent of on- and off-balance sheet transactions; 42
- that are aligned with the defined risk appetite and the derived risk tolerances and are adequately diversified; 43
- that are aligned with potential liquidity needs arising from stress situations, and 44
- whose distribution across companies, country units and currencies[1] takes into account the associated risks and market-specific features. 45

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[1] Also other cash equivalents (money surrogates, cryptocurrencies, etc.) if applicable.

The insurer shall ensure that there are no legal, contractual, regulatory or operational restrictions preventing the liquidity reserves from being used. The appropriate amount, composition, diversification, and assumptions regarding the transferability or operational provision of the assets or collateral shall be regularly reviewed, documented and compared with the liquidity planning. The insurer's effective, immediate and direct access to the assets comprising the liquidity reserves and the functioning of the operational processes must be ensured. 46

The provisions on the liquidity reserve shall also apply to branches by way of analogy. 47

## D. Liquidity risk management

The executive board shall ensure that the capacity to pay can be guaranteed even under adverse conditions, that liquidity is effectively managed based on the defined risk appetite and the risk strategy derived from it, and that effective guidelines and processes are established for controlling and limiting liquidity risk. 48

The risk appetite shall include in particular the definition of resilience in relation to the duration and severity of a liquidity bottleneck within the framework of the defined business strategy and in stressed conditions. In particular, this shall also include statements on the minimum level of liquidity reserves or liquidity potential and the liquidity coverage ratios in the relevant planning horizons. The risk appetite can be defined statically or dynamically based on reliable indicators. The risk appetite in relation to liquidity risks shall be defined, documented and approved by the board of directors. 49

Based on the business strategy and the defined risk appetite, the handling of liquidity risks must be taken into account in the risk strategy. Derived from this, insurers shall define tolerances, limit systems, indicators and warning thresholds for controlling and monitoring liquidity positions. 50

The overall liquidity risk management framework shall be structured and include the entire documentation of all rules, processes, controls and the defined reporting channels at all organisational levels involved up to the board of directors. The liquidity risk management framework must be reviewed and adjusted if necessary in the event of significant changes in business activities and the market environment. Its effectiveness must also be regularly reviewed by independent bodies. The management of liquidity risks including the policies, processes and tools for monitoring, controlling and limiting liquidity risks shall be integrated into the overarching, enterprise-wide risk management system. 51

Insurers in a group with centralised liquidity management shall ensure that they can assess and monitor their own liquidity positions based on the risk appetite, the liquidity risk strategy and the principles and limits derived from it. In particular, defined reporting processes must be set up for this purpose. 52

When planning, insurers in a group with centralised liquidity management shall take into account possible restrictions on the transfer of liquidity between companies and country units due to legal, contractual, regulatory or operational reasons. They must ensure that the necessary liquidity potential can be used without restriction, even in stressed conditions, in order to guarantee their own capacity to pay. 53

Supervised insurance groups/conglomerates must ensure that they have the liquidity potential or the necessary liquidity reserve within the group or conglomerate even in stressed conditions. 54

Insurers shall systematically analyse liquidity risks according to their business activity and relevance and form corresponding risk groups of business transactions where appropriate. The risk assessment under both regular and stressed conditions shall include, in particular, cash flows, liquidity reserves and liquidity potential, any currency mismatches, counterparties, collateral to be provided and refinancing. Possible concentration and cluster risks as well as other dependencies must be taken into account. Particular attention must be paid to liquidity risk drivers from off-balance sheet transactions (irrevocable loan commitments, guarantees, downgrade trigger agreements, collateral/margin calls, other margin calls, etc.). 55

Insurers shall assess liquidity positions at least once a year under stressed conditions (stress tests) or in the context of adverse scenarios. They shall take into account the main risk drivers of cash flows and liquidity potential individually and, if necessary, in combined analyses. Possible elements of stress tests and scenarios include: 56

- company or business-specific elements;
- overall market scenarios;
- counterparties and other market participants;
- restrictions on cash flows between affiliated companies in a group with centralised liquidity management;
- loss of liquidity facilities or refinancing options;
- liquidity risk drivers from off-balance sheet obligations;
- specific FINMA requirements.

The scope and number of stress tests and scenarios analysed shall be based on the complexity of the risk profile. Risks identified as being significant for the insurer should be taken into account in the stress tests and scenario analyses. 57

Insurers shall use *reverse stress tests* in particular to validate the liquidity parameters used, the defined risk indicators and the limit systems. 58

Insurers shall ensure that the data used for stress tests and scenario analyses corresponds to the current situation. In the event of significant changes in the insurer's liquidity situation or adverse changes in the environment, it must be examined whether additional stress tests with updated data are required. 59

The scenario analyses and stress tests must be documented. The results and their evaluation must be reported to the executive board and the board of directors. 60

In order to be able to intervene in good time and ensure that they are able to act, insurers shall define specific measures and processes, including a contingency funding plan, and determine the organisational responsibilities. 61

Insofar as liquidity risks, in particular insolvency risk, refinancing risk, call risk and market liquidity risk are deemed to be material, they must be appropriately taken into account in the Own Risk and Solvency Assessment (ORSA). 62

In relation to branches, margin nos. 48–51 and 55–62 shall apply by way of analogy. In particular, branches must ensure that they can actually access the necessary liquidity potential without restriction, even in stressed conditions. 63

## E. Liquidity controlling and liquidity monitoring

Based on their risk strategy and assessment of liquidity risks, insurers shall implement effective monitoring and control processes. 64

The measurement, monitoring and control methods used shall take particular account of the following: 65

- the nature and complexity of business activities and, in particular, off-balance sheet obligations (total risk exposure); 66
- quantitative indicators and methods used for measurement, assessment and control; 67
- the extent and composition of the liquidity reserve and the available liquidity potential. 68

Insurers shall define reporting processes in order to provide the key organisational areas, the executive board and the board of directors with the necessary information, quantitative indicators, limit utilisation, etc. in a timely manner. 69

Liquidity management and liquidity risk management shall be integrated into the insurer's internal control system. Regular monitoring of compliance with the requirements and processes shall be carried out. An overall assessment of the adequacy of the entire liquidity risk management framework shall be carried out at least once a year. 70

The provisions on liquidity controlling or liquidity monitoring shall also apply by way of analogy to branches. 71

## F. Contingency funding plan

In order to shorten the response time, insurers shall have a documented contingency funding plan for liquidity stress events that is aligned with the liquidity risk assessment. 72

The contingency funding plan shall contain in particular: 73

- suitable early warning indicators in order to recognise and respond in good time to emerging risks to the liquidity position and potential financing options; 74
- contingency planning triggers and a structured, multi-stage threshold concept with an escalation procedure according to the severity of the liquidity crisis; 75
- measures for each escalation level, whereby in particular the possible liquidity-generating and liquidity-saving measures must be presented and prioritised and the sources of liquidity and liquidity generation must be estimated conservatively; 76
- operational processes to transfer liquidity and assets between jurisdictions, legal entities and systems, taking into account restrictions on the transferability of liquidity and assets; 77
- a documented allocation of tasks, competencies and responsibilities for all persons and organisational units involved; 78

- clear procedures, decision-making processes and reporting obligations with the aim of ensuring a prompt and continuous flow of information to the higher management levels; 79
- defined communication channels and strategies that ensure a clear, consistent and regular flow of information to internal and external stakeholders in the event of a contingency. 80

The contingency funding plan must be reviewed annually and updated if necessary. 81

The contingency funding plan and the reviews must be approved by the executive board. The board of directors must be informed about the contingency funding plan, the results of the reviews and any updates to it. 82

The provisions on the contingency funding plan shall also apply by way of analogy to branches. 83

## VI. Reporting to FINMA

Insurers and branches shall prepare an annual liquidity planning report for FINMA as at 31 December in accordance with Article 98*a* para. 4 ISO. They shall submit the report on the past financial year to FINMA by 30 April of the following year at the latest. 84

Reporting to FINMA shall be carried out for all insurers and branches by means of a standardised survey. FINMA generally publishes the survey by 30 June of the financial year. 85

The reporting requirements will be scaled according to the insurers' supervisory category and risk exposure. FINMA will also stipulate simplified reporting elements for small insurance companies in accordance with Article 1*c* ISO, provided the small insurer has reliable liquidity planning in place, has not entered into any off-balance sheet obligations, and the liquidity situation has not deteriorated significantly in the previous year. 86

In addition to regular reporting, insurers and branches must immediately report to FINMA extraordinary changes in their liquidity situation (Art. 29 para. 2 of the Financial Market Supervision Act of 22 June 2007 [SR *956.1*]). Extraordinary changes shall include in particular: 87

- an expected liquidity need in the next 30 days according to the liquidity planning that cannot be covered by the liquidity reserve; 88
- an actual liquidity need in the last 30 days that could not be covered by the liquidity reserve; 89
- other anticipated or actual liquidity needs within a defined planning horizon that cannot be covered in time by the available liquidity potential; 90
- serious operational or strategic liquidity problems; 91
- cases in which a contingency funding plan is activated. 92

## VII. Transitional provision

Ordinary reporting to FINMA shall take place for the first time for the 2025 financial year on 30 April 2026. FINMA will publish the elements of the survey by 30 June 2025. 93