

ORDINANCE No. 48 of 20.03.2024 on the requirements to the remuneration

Promulgated – SG No. 32/02.04.2024

Amended and supplemented SG No. 41/21.05.2019; amended SG No. 66/20.08.2019;

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amended and supplemented SG No. 64/03.08.2021

Adopted by Decision No. 140-H of 20.03.2024 of the Swiss Financial Commission

Section I: General provisions

Art. 1. (Amended – SG No. 41/2019; amended and supplemented, SG No. 61/2020)

(1) The ordinance defines the principles and requirements for the policy and practice for determining and paying remuneration in insurers, reinsurers, supplementary social insurance undertakings, which have received a license to operate in accordance with the Insurance Code and the Social Insurance Code.

(2) The ordinance defines the principles and requirements for the policy and practice for determining and paying remuneration in management undertakings that have received a license to operate in accordance with the Collective Investment Schemes and Other Undertakings for Collective Investments Act.

(3) The ordinance defines the principles and requirements for the policy and practice for determining and paying remuneration to members of the management and control bodies of public undertakings.

(4) Public undertakings that are credit institutions, investment firms, insurers, reinsurers, supplementary social insurance undertakings, and management undertakings, in addition to the sectoral requirements regarding the policy and practice for determining and paying the remuneration of the members of their management and control bodies, apply the requirements of Section III accordingly. The first sentence does not apply in the event of a conflict between the sectoral requirements and the requirements of Section III.

Section II: Remuneration policy in insurers, reinsurers, supplementary social insurance undertakings, management undertakings

(Title amended - SG No. 61/2020)

Art. 2. (Amended and supplemented - SG No. 41/2019; amended SG No. 61/2020; amended SG No. 60/2021; amended and supplemented, SG No. 64/2021)

(1) The persons under Art. 1, para. 1 adopt and implement a policy that covers all forms of remuneration, such as salaries and other financial and/or material incentives, including benefits related to voluntary pension and/or health insurance, for the following categories of personnel:

- 1. employees in managerial positions;**
- 2. employees whose activity is related to taking risks;**

3. the responsible actuary and the actuaries;
 4. employees performing control functions;
 5. all other employees whose remuneration is commensurate with the remuneration of employees under items 1 and 2 and whose activities have an impact on the risk profile of an entity under Art. 1, para. 1, and in the case of supplementary social insurance undertakings - also on the risk profile of the funds managed by them.
(2) The remuneration policies of supplementary social insurance undertakings also cover:
 6. the persons who perform the functions under Art. 123e, para. 7, items 1 and 3 of the Social Insurance Code;
 7. the employees whose professional activities have a significant impact on the risk profile of the undertakings and the funds managed by them.
(3) Employees performing control functions in the insurer, respectively in the reinsurer, within the meaning of para. 1, item 4, are the persons who manage the functions under Art. 78, para. 1, items 1 - 3 of the Insurance Code, and the employees in the units that perform these functions. The remuneration policy of the insurer, respectively the reinsurer, determines the positions of the employees that may have a significant impact on the risk profile of the undertaking under para. 1, item 5, or contains a methodology for their determination.
(4) The remuneration policy is developed by the management or control bodies in cooperation with the internal control service and, where appropriate, with experts in the field of human resources who possess the necessary qualifications and functional independence in order to ensure an objective assessment on the appropriateness of the remuneration policy, including the implications for risk and risk management.
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Art. 3. (Amended and supplemented - SG No. 41/2019; amended and supplemented, SG No. 61 /2020)

- (1) The supervisory board or the board of directors, respectively the control board, of the entity under Art. 1, para. 1 adopts the remuneration policy and is responsible for its implementation and periodic review.
 - (2) The implementation of the remuneration policy is subject to periodic and independent internal review at least once a year by or with the participation of the specialized internal control service.
 - (3) The remuneration policy shall be clear and documented and available to the persons under Art. 2, para. 1 and 2 to which it refers.
 - (4) Insurers and reinsurers ensure that all their employees are familiar with the remuneration policy.
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Art. 4. (Amended and supplemented - SG No. 41/2019; amended SG No. 61/2020; amended SG No. 64/2021)

(1) The remuneration policy shall:

- 1. promote prudent and effective risk management and not encourage taking risks above the acceptable level;**
- 2. be consistent with the undertaking's business strategy (activity programs, rules and policies), goals, values, and long-term interests;**
- 3. provide for measures to avoid conflicts of interest;**
- 4. be consistent with the principles and good practices for protecting the interests of users of insurance services, clients of management undertakings, and investors in collective investment schemes, respectively.**

(2) The remuneration policy of supplementary social insurance undertakings shall meet the requirements under para. 1, items 1 - 3 and shall correspond to the results of the activity, financial stability, and risk profiles of the undertaking and the funds managed by it and with the long-term interests of the insured persons and pensioners.

(3) The remuneration policy of insurers and reinsurers shall meet the requirements under para. 1, items 1 - 4, and within the meaning of item 1, the “acceptable level” is determined according to the risk management policies and the risk-taking limits provided in them, including in relations with service providers. The remuneration policy cannot jeopardize the ability of the insurer, respectively the reinsurer, to maintain the required own funds.

(4) The insurer, respectively the reinsurer, guarantees that the measures to avoid conflicts of interest under para. 1, item 3 cover at least:

- 5. the persons who develop the remuneration policy, who approve or revise it, as well as those who prepare, conclude or revise agreements regarding remuneration;**
- 6. the persons who conclude or write insurance or reinsurance contracts, which may significantly affect the risk profile of the insurer or reinsurer;**
- 7. asset managers.**

(5) The remuneration policy is updated according to changes in the market and the financial situation of the entity under Art. 1, para. 1.

Art. 4a. (New - SG No. 64/2021)

(1) The insurer, respectively the reinsurer, which is a participating undertaking, the insurance holding undertaking, or the mixed-activity financial holding undertaking, shall adopt a remuneration policy for the entire group, and the policy shall reflect the complexity and structure of the group with the aim of uniform and consistent application across the group in line with the group's risk management strategies. The policy applies to all individuals at the group level and to each individual entity.

(2) The insurer, respectively the reinsurer, which is a participating undertaking, the insurance holding or the mixed-activity financial holding, shall ensure that:

1. there is interconnection of the remuneration policies in the group and their compliance with the legal and regulatory requirements in relation to the undertakings that are part of it, and they are implemented correctly;
 2. all undertakings of the group comply with the legal and regulatory requirements regarding remuneration;
 3. conditions have been created for the management of significant risks at the group level, related to the implementation of the remuneration policy in the group.
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Art. 5. (Amended - SG No. 41/2019; amended SG No. 61/2020)

(1) The entities under Art. 1, para. 1 may pay both fixed and variable remuneration, with the remuneration policy specifying the appropriate ratio between fixed and variable remuneration depending on the staff category and a maximum upper limit of variable remuneration for each staff category.

(2) The fixed remuneration shall represent a sufficiently large proportion of the total amount of remuneration so as to allow the application of a flexible policy on the variable remuneration, including the possibility of not being paid, in cases where any of the following circumstances exist:

1. criteria and indicators defined in advance in the remuneration policy have not been met;
2. there is a significant deterioration of the financial status of the entity under Art. 1, para. 1, especially in cases where the termination of the activity can be expected as a result;
3. extraordinary circumstances have occurred, leading to a significant risk for

Implementation of the remuneration policy

(2) (Amended - SG No. 41/2019) The evaluation criteria and procedures and changes to them are drawn up in writing and brought to the knowledge of the relevant persons under Art. 2, para. 1 and 2 upon taking up the relevant position and upon any subsequent change. Art. 9. (Amended - SG No. 41/2019; amended SG No. 61/2020) (1) (Amended - SG No. 41/2019; amended SG No. 61/2020) The entities under Art. 1, para. 1 disclose information about the remuneration policy and any subsequent change in it in a clear and accessible manner, not disclosing the information that constitutes a secret protected by law. (2) Disclosure of information under para. 1 may be in the form of an independent statement, periodic disclosure in the annual financial statements or in another appropriate form. (3) Information regarding:

1. the decision-making process used to determine the remuneration policy, including, if applicable, information regarding the composition and term of the remuneration committee, the name of the external consultant whose services were used to determine the remuneration policy, and the role of relevant stakeholders;
2. the relationship between pay and performance;

3. the criteria used to measure performance and account for risk;
4. the performance criteria on which the right to receive shares, options and variable elements of remuneration is based;
5. the main parameters and justification of the scheme for possible annual cash bonuses and other benefits other than cash.

Art. 10. (Amended - SG No. 61/2020) Management undertakings that have received a license to carry out activities in accordance with the Collective Investment Schemes and Other Undertakings for Collective Investments Act shall apply Art. 2, para. 3, Art. 3, para. 3, Art. 4, para. 1, item 4, Art. 5, para. 1 - 5, Art. 6, para. 4, Art. 7, para. 3 and Art. 8 - 10.

Section III: Policy on the remuneration of members of the management and control bodies of public undertakings

Art. 11. (Amended and supplemented - SG No. 61/2020) (1) (Amended and supplemented, - SG No. 61/2020) The public undertaking adopts and implements a policy on the remuneration of the members of the undertaking's management and control bodies according to Art. 116c, para. 1 of the Public Offering of Securities Act (POSA). The public undertaking pays remuneration only in accordance with the remuneration policy adopted by the general meeting. (2) The remuneration policy is developed by the supervisory board, respectively by the board of directors of the public undertaking with the assistance of the remuneration committee, when one is established. (3) (Amended - SG No. 61/2020) Proposals for adopting a remuneration policy, for amendments and/or additions to it or for its revision are included as an independent item in the agenda of the general meeting of the public undertaking, announced in the invitation under Art. 115, para. 2 of the POSA, and are adopted by the general meeting of shareholders. (4) (new - SG No. 61/2020) The public undertaking revises the remuneration policy at least once every 4 years, as well as when significant amendments and/or additions to it are necessary or this is necessary to achieve the objectives under para. 8. (5) (new - SG No. 61/2020) Until the adoption of a remuneration policy or when the general meeting does not adopt the proposed policy, the public undertaking shall pay remuneration to the members of its management and control bodies in accordance with its existing practice. In these cases, the management board of the public undertaking is obliged to present a policy, or a revised policy, for adoption at the next general meeting. (6) (new - SG No. 61/2020) When there is an adopted remuneration policy and the general meeting does not accept the proposed amendments and/or additions to it, respectively the proposed new policy, the public undertaking continues to pay remuneration to the members of its management and control bodies in accordance with the adopted policy. In these cases, the management board of the public undertaking is obliged to present revised amendments and/or additions to it, respectively a revised new policy, for adoption at the next general meeting. (7) (Previous para. 4, amended - SG No. 61/2020) The public undertaking is obliged to disclose its remuneration policy and any subsequent change to it, without disclosing sensitive commercial information or other information constituting a secret protected by law. The adopted remuneration policy, with the date of adoption and date of its entry into force and the results of the voting at the general meeting, is

published immediately on the undertaking's website and is available free of charge at least as long as it is in force. (8) (new - SG No. 61/2020) The remuneration policy should:

1. contribute to the fulfillment of business goals and be consistent with the long-term interests and stability of the undertaking;
2. contain information on how the undertaking will achieve the goals under item 1;
3. be clear and comprehensible, describe the components of fixed and variable remuneration, including all bonuses and all other benefits in any form that may be provided to the members of the management and control bodies of the undertaking, and to indicate their relative share. (9) (new - SG No. 61/2020) The remuneration policy describes how the remuneration and working conditions of the undertaking's employees are taken into account when developing the remuneration policy for the members of the undertaking's management and control bodies. (10) (new - SG No. 61/2020) The remuneration policy shall include information on the terms for deferring the payment of the variable remuneration, including the conditions under which the undertaking may request the return of paid variable remuneration. (11) (new - SG No. 61/2020) When share-based remuneration is envisaged, the remuneration policy shall contain a description of the manner in which the share-based remuneration contributes to the achievement of the objectives under para. 8, the period for acquiring the rights and, when applicable, the conditions for keeping the shares after their acquisition. (12) (new - SG No. 61/2020) The remuneration policy shall include a description of the decision-making process used to define, review and implement it, including measures to prevent or manage conflicts of interest and, where applicable, the role of the remuneration committee or of other committees in the undertaking. In the case of amendments and/or additions to the remuneration policy, a description and explanation of the significant changes and the manner in which the results of the voting at the general meeting, the opinions of shareholders and the minutes of the general meetings at which it was considered and voted on were taken into account are included in it remuneration policy. (13) (new - SG No. 61/2020) The remuneration policy may specify exceptional circumstances in which the undertaking may temporarily opt not to apply part of the policy. The exceptional circumstances under the first sentence are circumstances in which choosing not to apply part of the policy is necessary and related to the long-term interests and sustainability of the public undertaking or its viability. In the case of the first sentence, the remuneration policy provides under which procedural conditions and which of its components may temporarily not be applied.

Art. 12. (Amended and supplemented - SG No. 61/2020) (1) (Supplemented - SG No. 61/2020) The public undertaking shall disclose to its shareholders the manner in which it implements the remuneration policy in a policy implementation report, which is a separate document to the annual financial statement on the undertaking's activities. (2) (Supplemented - SG No. 61/2020) The report under para. 1 contains a program of implementation of the remuneration policy for the next financial year or for a longer period, an overview of the manner in which the remuneration policy has been

implemented during the year, including all benefits in any form that have been granted or payable to current and former members of the management or control body, with an emphasis on the significant changes adopted in it, compared to the previous financial year. (3) (new - SG No. 61/2020) Any shareholder or their representative participating in the regular general meeting may make suggestions on the report under para. 1. In case suggestions are made, the undertaking indicates in the next report under para. 1 how the recommendations have been taken into account. (4) (Previous para. 3, amended - SG No. 61/2020) After holding the general meeting at which the annual financial statement was approved, the public undertaking publishes the report under para. 1 on its website, which is available free of charge for a period of 10 years. The public undertaking may decide to make the report available to the public after the period under the first sentence, provided that the personal data of the members of the management and control bodies of the undertaking are deleted. (5) (new - SG No. 61/2020) After the expiration of the term under para. 4, sentence one, the personal data of the members of the management and control bodies of the undertaking contained in the report under para. 1, cannot be disclosed, unless a longer term is provided by law. (6) (new - SG No. 61/2020) The public undertaking does not include in the report under para. 1 special categories of personal data of the members of the management and control bodies of the undertaking within the meaning of Art. 9,

1. The insurer must be able to meet the changing and increasing demands associated with their duties.

(3) The members of the board of directors, as well as the management and supervisory board of the insurer or reinsurer, with the right to access the single market of the European Union, shall collectively possess, at all times and after any changes in composition, appropriate qualifications, knowledge, and experience in at least the following areas:

1. Insurance and financial markets;
2. Business strategy and business model;
3. System of governance;
4. Financial and actuarial analysis;
5. Regulatory and supervisory requirements.

(4) For the purposes of para. 3:

1. "Knowledge of insurance and financial markets" means: a) Understanding of the general business, economic, and market environment in which the undertaking operates; b) A comprehensive understanding of the requirements and needs of insurance service users and their capacity to handle financial products;
2. "Knowledge of business strategy and business model" means an in-depth knowledge of the undertaking's strategy and model;
3. "Knowledge of system of governance" means: a) Understanding of the risks faced by the undertaking and its capacity to manage them; b) The ability to evaluate the

effectiveness of the organization's structure to ensure reliable management, tracking, and control of activities; c) The capacity to lead and oversee the implementation of organizational changes if necessary;

4. "Knowledge of financial and actuarial analysis" means the capacity to interpret financial and actuarial information accurately, identify key issues, and establish appropriate control measures, taking necessary actions based on this information;
5. "Knowledge of the regulatory framework and supervisory requirements" means understanding the regulatory environment in which the undertaking operates, the expectations of supervisory authorities, and the need to ensure compliance promptly with regulatory changes.

(5) Without limiting its obligations under para. 1 and 2, an insurer without access to the EU single market shall ensure that members of its board of directors, and its management and supervisory boards, generally possess qualifications, knowledge, and experience as outlined in para. 3. If the insurer cannot fully comply with para. 3 and 4, it must submit an assessment of arising risks and mitigation measures to the SFC.

Application of Proper Requirements

Art. 15. (1) When assessing the propriety of a person who will hold a position under Art. 79, para. 1 of the Insurance Code, the insurer or reinsurer shall take into account any criminal record, administrative violations, or other actions noted in Art. 80, para. 1 and 3 of the Insurance Code, as well as any other violations of the law that may question the individual's integrity, including pending legal proceedings. (2) The insurer or reinsurer shall conduct background checks on the propriety of any person appointed under Art. 79, para. 1 of the Insurance Code at the time of their election or appointment, and maintain ongoing checks to ensure compliance with the propriety requirements at all times. (3) The presence of information on committed crimes or other offenses does not automatically result in disqualification except in cases specified under Art. 80, para. 1, items 3-5 and 7-9, and each case is assessed individually. (4) Persons under Art. 79, para. 1 of the Insurance Code shall refrain from activities that may create conflicts of interest in their roles for the insurer or reinsurer.

Fit and Proper Policies and Procedures

Art. 16. (1) The fit and proper policy under Art. 79, para. 5 of the Insurance Code and Art. 273(1) of Delegated Regulation (EU) 2015/35 must include:

1. Procedures for identifying positions that require SFC notification for appointment or dismissal and conducting such notification;
2. Processes for assessing the fitness, propriety, and conflict-of-interest status of individuals considered for positions both initially and continuously;
3. Timelines for regular internal assessments of fitness, propriety, and conflict of interest, and criteria that trigger extraordinary assessments;

4. Procedures for evaluating the knowledge, skills, and personal integrity of individuals under Art. 85, para. 1 of the Insurance Code, during both initial and ongoing assessments;
5. Measures to manage conflicts of interest from overlapping positions and functions to ensure reliable and prudent management. (2) Regular internal assessments as per para. 1, items 3 and 4 must be conducted at least every two years from the date of appointment or the last assessment. (3) Extraordinary assessments may be conducted when there is doubt that a person:
 1. Obstructs the undertaking's compliance with applicable laws;
 2. Increases the risk of financial offenses or breaches of anti-money laundering or anti-terrorist financing measures;
 3. Poses a risk to the undertaking's reliable management.

Outsourcing of Key Functions

Art. 17. (1) Insurers or reinsurers must apply fit and proper assessment procedures to service providers and their employees or subcontractors assigned key functions as outlined in Art. 110 of the Insurance Code. (2) The insurer or reinsurer must designate an internal individual who oversees the outsourced key function and ensures they have the required fit, proper status, and relevant expertise. Art. 79, para. 3 of the Insurance Code applies for oversight personnel. (3) The SFC must be notified about each service provider or subcontractor involved in key functions and the appointed internal overseer.

Notification

Art. 18. (1) The insurer or reinsurer must notify the SFC of individuals selected for positions requiring prior approval under Art. 80, para. 10, Art. 82, Art. 93, para. 5, and Art. 95, para. 3 of the Insurance Code, as well as for branch representatives under Art. 45, para. 2, item 3, before their appointment. (2) Notification must be submitted within seven days for other key positions under Art. 78, para. 1, item 5. (3) Notifications must include contact details of the insurer or reinsurer, a resume of the individual, details of their position and qualifications, and other supporting documents as specified in paras. 4-7. (4) Supporting documents include higher education diplomas, resumes, and declarations per relevant sections of the Insurance Code.

Assessment by the SFC

Art. 19. (1) The SFC evaluates fitness, propriety, and reliability based on provided documents and supplementary information obtained through its channels. (2-6) The SFC may request additional information from other supervisory authorities and conduct checks as necessary to confirm qualifications, manage conflicts of interest, and verify ongoing compliance with relevant requirements.

Meeting Duties and Qualifications of Management Boards

1. **General Duty Compliance:** The board members of the insurer or reinsurer, including management and supervisory boards with European single market access, must maintain qualifications that meet changing and increasing demands at all times.
2. **Collective Knowledge Requirements:** The board must possess collective expertise in:
 - Insurance and financial markets
 - Business strategy and model
 - Governance systems
 - Financial and actuarial analysis
 - Regulatory and supervisory compliance
3. **Definitions for Knowledge Requirements:**
 - Insurance and financial markets: Understanding the business, economic, and market environment and user requirements for financial products.
 - Business strategy and model: Detailed knowledge of the undertaking's business strategy.
 - Governance systems: Understanding risks, assessing management effectiveness, and leading necessary changes.
 - Financial and actuarial analysis: Ability to comprehend, identify key issues, and act on financial data.
 - Regulatory and supervisory requirements: Familiarity with relevant frameworks and expectations to ensure prompt regulatory compliance.
4. **Insurers without Single Market Access:**
 - Insurers outside the EU single market must ensure board members have appropriate qualifications per the outlined requirements. If full compliance isn't met, an assessment of potential risks and mitigating measures must be submitted to the SFC.

Application of Proper Requirements

1. **Integrity Assessments:** Insurers/reinsurers must evaluate any past offenses or administrative violations related to board candidates and current members.
2. **Background Checks:** Regular and ongoing checks for compliance with integrity standards are mandatory.
3. **Case-by-Case Evaluation:** Not all offenses automatically disqualify a person; each case is assessed individually.
4. **Avoidance of Conflicts of Interest:** Members must avoid activities that could lead to conflicts.

Fit and Proper Policies and Procedures

1. **Content Requirements:**
 - Procedures for position notifications to the SFC.
 - Ongoing and initial assessment processes for fitness and lack of conflicts of interest.

- Periodic and extraordinary internal assessments.
 - Measures for managing conflicts of interest.
2. **Assessment Timeline:** Regular assessments should occur every two years or as needed under specific circumstances, such as hindrance of operations or increased risks.

Outsourcing of Key Functions

1. **Assessment of Service Providers:** Insurers/reinsurers must apply fit and proper procedures to outsourced providers, including their employees and subcontractors.
2. **Supervisory Designation:** A qualified internal person must oversee outsourced key functions.
3. **Notification Obligation:** The SFC must be informed about outsourced service providers and supervisors.

Notification Procedures

1. **Pre-Appointment Notification:** Insurers/reinsurers must notify the SFC of proposed appointments requiring prior approval.
2. **Post-Appointment Notification:** Notification of appointments and dismissals, along with the reasons, must be reported within seven days.
3. **Verification Documents:** Qualifications, experience, and conflict declarations must accompany notifications.

Assessment by the Swiss Financial Commission (SFC)

1. **Evaluation Criteria:** The SFC assesses qualifications based on submitted documents and may verify information through cross-checks and cooperation with other authorities.
2. **International Employment Verification:** Requests to other EU/EEA member states' authorities may be made for verification of previous experience.
3. **Conflict of Interest Management:** The SFC assesses measures to manage potential conflicts when positions are combined.

Operational Risk Management Process

1. **Implementation of Processes:** The reinsurer shall introduce and implement processes for identifying, analyzing, and reporting events that represent operational risk. This includes establishing a process to collect and monitor such events.
2. **Scenario Analysis:**
 - The reinsurer must develop and analyze an appropriate set of operational risk scenarios. These should be based on at least:
 - Failure of key processes, personnel, or systems.

- Occurrence of external events.
 - Simultaneously, measures to mitigate identified operational risk scenarios must be identified and applied.
- 3. Information Collection and Analysis:
 - The reinsurer collects and analyzes information on cases of operational risk within the organization and may also review cases from other organizations.
 - Analysis should include:
 - Reasons for the incident's occurrence.
 - Consequences of the incident.
 - Actions taken (or not taken) regarding the incident.
 - The scope should account for events with both low frequency and severe impact, as well as those with high frequency and milder impact, including cases where no harmful consequences resulted.

Risk Management Policy – Reinsurance and Mitigation Techniques

Art. 26 (1): The policy should cover:

1. **Risk Transfer Level:** Identification of the appropriate risk transfer level aligned with the undertaking's risk tolerance and suitable types of reinsurance contracts.
2. **Counterparty Selection:** Principles for selecting risk mitigation counterparties, procedures for assessing and monitoring their creditworthiness, and diversification.
3. **Effective Risk Transfer:** Procedures for assessing risk transfer effectiveness and basis risk consideration.
4. **Liquidity Management:** Management procedures for potential time gaps between claim payments and reinsurance benefits.

Art. 26 (2): A written analysis should be prepared, documenting the inherent risks of risk mitigation techniques, measures for counteraction, and potential worst-case consequences.

Art. 26 (3): For the use of special purpose vehicles (SPVs):

- Continuous monitoring of full financing.
- Consideration of residual risks within the risk management system and in capital requirement calculations.

Strategic and Reputational Risk Management

Art. 27 (1): The reinsurer shall:

- Monitor and manage exposure to strategic and reputational risks, including their interaction with other material risks.

- **Address key reputation-affecting issues, considering stakeholder expectations and market sensitivities.**

Art. 27 (2): The risk manager must report findings promptly to the competent body and executive management.

Art. 27 (3): Strategic risk arises from misalignment between:

- 1. Strategic goals.**
- 2. Operational strategies.**
- 3. Investment of resources.**
- 4. Performance quality.**
- 5. Market conditions.**

Art. 27 (4): Establish a process for setting strategic goals and translating them into short-term operational plans.

Asset and Liability Management (ALM) Policy

Art. 28: The policy should cover:

- 1. Mismatch Identification: Procedures for assessing mismatches between assets and liabilities, including terms and currency.**
- 2. Mitigation Techniques: Techniques to mitigate inconsistencies and their expected effects.**
- 3. Permitted Mismatches: Deliberate mismatches allowed.**
- 4. Stress and Scenario Testing: Methodology and frequency for conducting tests.**

Investment Risk Management Policy

Art. 29 (1): The policy must include:

- 1. Portfolio Objectives: Security, quality, liquidity, and profitability goals.**
- 2. Quantitative Limits: On asset classes and exposures.**
- 3. Market Environment Assessment: Regular analysis.**
- 4. Asset Valuation Procedures.**
- 5. Performance Monitoring.**
- 6. Interest of Insurance Users: Asset selection.**

Art. 29 (2): Monitor compliance with quantitative limits by class, counterparty, geographic area, and industry.

Art. 29 (3): Regular stress testing to verify limit adequacy for compliance with the Swiss Insurance Code requirements.

Art. 29 (4-5): Appropriate methods and internal controls for risk identification, measurement, monitoring, and management.

Liquidity Risk Management Policy

Art. 30 (1): The policy must include:

1. **Cash Flow Mismatch Procedure:** Identification and monitoring of inflows and outflows.
2. **Total Liquidity Needs Assessment:** Short- and medium-term planning with buffers.
3. **Liquid Assets Monitoring.**
4. **Alternative Financing Tools.**
5. **Impact of New Activities.**

Art. 30 (2): Group-level management of free funds and transferability tests.

Prudent Investor Principle and Governance System

Art. 31: The reinsurer shall observe the prudent investor principle, ensuring:

- **Due care in strategy development and control.**
- **Qualified, non-conflicted staff.**
- **Asset manager oversight.**
- **Protection of service users' interests.**
- **Diversification.**

Art. 32: The reinsurer should establish its own investment risk indicators and consider risks when making investment decisions without over-reliance on capital requirements or third-party data.

Review and Management of Investment Activities

Art. 33:

- **Prior to any non-routine investment, the reinsurer must assess its capability and associated risks.**
- **Procedures should ensure information on significant risks is provided to the competent body.**
- **Conduct ORSA if significant risk or change in the risk profile is involved.**

Regular Review of Investment Portfolio

Art. 34 (1): Regular review and monitoring of portfolio characteristics:

- **Liability constraints.**

- Acceptable risk levels.
- Portfolio diversification.
- Asset characteristics (credit quality, liquidity, sustainability, etc.).
- Potential events affecting investment value.

Art. 34 (2): Retain investments that may not meet all characteristics if beneficial to the portfolio as a whole.

Section I: Asset Compliance Requirements

Security, Quality, Liquidity, and Profitability To ensure compliance with security, quality, liquidity, and profitability standards, insurers and reinsurers should maintain non-compliant assets at reasonable levels. Internal limits must be established concerning the number, volume, and terms of asset loans or repo transactions, with clear justification aligned with the entity's business strategy and risk and liquidity management.

Profitability (Art. 35) Insurers and reinsurers must set investment return targets that support sustainable yields necessary to meet the reasonable expectations of policyholders, insured persons, or beneficiaries.

Section II: Conflict of Interests

Conflict of Interests (Art. 36)

1. Investment policies should outline how insurers and reinsurers identify and manage investment-related conflicts of interest, whether arising internally or from asset management entities. Documentation of actions taken to manage conflicts is required.
2. A conflict exists when the insurer or reinsurer has incentives to make investments that conflict with contract objectives or the best interests of service users.
3. Obligations related to investments in parent or group companies' assets must comply with Art. 124 of the Insurance Code.

Section III: Investment Strategies for Unit-Linked and Index-Linked Insurance

Unit-Linked and Index-Linked Insurance Contracts (Art. 37)

1. Insurers must select investments for unit-linked and index-linked insurance in the best interest of users, considering disclosed policy objectives.
2. When investments involve collective investment undertakings or internal funds, insurers must manage restrictions like liquidity constraints and legal or contractual transferability limitations.
3. Insurers must assess and manage liquidity risks associated with these investments, ensuring:
 - The ability for policyholders to redeem within notice periods.

- Synchronization of transactions with premium collection and policy purchases.
- Balanced portfolio maintenance to prevent misalignment with the disclosed risk profile.

Section IV: Investments in Non-Traded and Complex Products

Non-Traded Assets (Art. 38)

1. Insurers and reinsurers must implement and oversee procedures for investments not admitted to regulated markets or that are complex to value.
2. Assets admitted but not regularly traded are treated similarly to non-traded assets.
3. When using mark-to-model valuations, risk management functions must approve and periodically review models after independent price verification and stress testing.
4. The entity must have expert capacity to manage structured products and associated risks, ensuring robust risk assessment procedures.

Section V: Derivatives and Securitized Instruments

Derivatives (Art. 39)

1. Insurers and reinsurers must:
 - Establish evaluation procedures for derivative strategies.
 - Apply risk management principles.
 - Monitor derivative performance per investment risk management policies.
2. Where derivatives could incur significantly greater losses, a full portfolio assessment must verify that risks are proportionate.
3. Derivatives used for portfolio efficiency should enhance the portfolio without negative trade-offs in quality, security, liquidity, or profitability.
4. Derivatives used for hedging should not introduce previously unassessed risks.
5. Documentation must support the rationale for derivative use, demonstrating effective risk transfer when applicable.
6. Increased risk in investment-linked payments must be controlled if derivatives are not used for risk mitigation or portfolio efficiency.

Securitized Instruments (Art. 40) Investing in securitized instruments requires insurers and reinsurers to:

- Ensure alignment between their interests and the originator or sponsor of the assets.
- Conduct due diligence and risk analysis.
- Verify that the originator retains a minimum economic interest and complies with regulations.

- **Access comprehensive documentation and monitor the originator's risk management policies and portfolio strategies.**

Section VI: Capital Management and Governance

Capital Management Policy (Art. 41) Insurers and reinsurers must adopt comprehensive capital management policies, ensuring:

- 1. Classification of own-fund items per relevant EU regulations and Swiss Financial Commission (SFC) guidelines.**
- 2. Monitoring of tiered capital issuance and continuous compliance with classification criteria.**
- 3. Unencumbered own-fund items, free from agreements undermining their efficacy.**
- 4. Timely initiation and completion of actions required under governing provisions.**
- 5. Clear and unambiguous contractual terms for own-fund items.**
- 6. Dividends and capital positions are reviewed considering foreseeable impacts.**
- 7. Documentation and discretionary cancellation of distributions.**
- 8. Policies adapted for extraordinary circumstances (e.g., crises, pandemics), applying prudence in dividend distribution and share redemption.**

Variable Remuneration and Capital Needs Assessment

Art. 41.

- 1. The insurer or reinsurer pays variable remuneration only if:**
 - **It has conducted an assessment of the aggregate capital needs.**
 - **This assessment:**
 - a) Takes into account the uncertainty regarding the depth, magnitude, and duration of the impact of extraordinary circumstances on the financial markets, economy, and the resulting consequences on its business model, solvency, liquidity, and financial position.**
 - b) Establishes prudential thresholds below which dividend distributions, share redemptions, or variable remuneration payments are suspended.**

Medium-Term Capital Management Plan

Art. 42.

- 1. The insurer or reinsurer with the right of access to the single market of the European Union shall develop a medium-term capital management plan, approved and monitored by the competent body, which includes:**
 - **Planned capital issuance.**
 - **Maturity of own-fund items, including contractual maturity and options for early repayment or redemption.**
 - **Projections from the Own Risk and Solvency Assessment (ORSA).**

- Impact of any variations in the valuation of own-fund items on regulatory limits.
 - Effects of distribution policies on own funds.
 - Consideration of the end of transitional periods.
2. The competent body supervises and ensures compliance with the plan.
 3. The plan is revised when:
 - Business model changes or capital needs projections are inaccurate.
 - Frequent capital transactions occur or there are sufficiency risks, including operational losses.
 - Solvency capital requirements indicate a downward trend, supported by ORSA findings.
 4. Insurers without EU market access may develop a medium-term capital management plan.

Internal Controls

Art. 43.

1. The insurer or reinsurer promotes effective internal control awareness among employees and develops control activities proportional to risks.
2. The competent body adopts an internal control policy for implementation by executive management.
3. The internal control system includes:
 - Mechanisms at various organizational levels.
 - Control activities across units.
 - Data protection, access, and security controls.
 - Measures for managing conflicts of interest.
4. Consistent application of internal controls across insurance or reinsurance groups is ensured.
5. Group-level governance includes risk concentration and intra-group transactions evaluation.

Monitoring and Reporting

Art. 44.

1. The internal control system includes mechanisms for effective reporting to the competent body.
2. Reporting characteristics are:
 - **Completeness:** Covers all aspects in quantity and quality.
 - **Reliability:** Verified upon receipt and before use.
 - **Clarity:** Easily interpretable.
 - **Consistency:** Comparable methods.
 - **Timeliness:** Immediate availability for decision-making.
 - **Relevance:** Directly related and continuously reviewed.

3. The insurer or reinsurer determines reporting formats, incentives for accurate and complete reporting, procedures for disclosing negative information, and mechanisms for identifying weaknesses.

Compliance Function

Art. 45.

1. The compliance function develops a compliance policy, approved by the competent body and revised annually, in accordance with Art. 270(1) of Delegated Regulation (EU) 2015/35.
2. The policy outlines functions as per Art. 93(1) of the Insurance Code.
3. The compliance head's annual report includes compliance plan implementation, analysis, and adequacy assessments.
4. The head reports unresolved violations to the Deputy Chairperson after specified periods.

Internal Audit Function

Art. 46.

1. The insurer or reinsurer ensures the independence and objectivity of the internal audit function, preventing operational role conflicts.
2. Combining audit functions with other key roles is allowed under specific conditions, such as non-complex risk profiles.
3. Combining audit with operational functions is prohibited.
4. The internal audit must conduct audits without undue influence from the governing body.
5. Conflict of interest risks in the internal audit function are mitigated by personnel rotation or other measures.
6. Internal audits follow professional standards and ethical codes.
7. Internal auditors do not audit their prior activities.
8. The internal audit function autonomously plans and reports its work.
9. Internal auditors require:
 - Audit expertise and knowledge of relevant standards.
 - Experience with accounting standards.
 - Understanding of corporate governance and risk management.
10. Internal auditors must adhere to professional standards, ethics, and demonstrate diligence and collaboration.

Internal Audit Policy

Art. 47.

1. The internal audit policy outlines terms for providing opinions or performing special tasks.
2. Group-level policies coordinate audit activities and ensure compliance.

Internal Audit Plan

Art. 48.

1. Audit plans are risk-based and cover significant activities over a reasonable period.
2. Annual plans, resource assessments, and amendments are submitted to the competent body.
3. Engagement plans specify audit scope, objectives, and resources, with revisions as needed.

Internal Audit Function Tasks

Art. 49.

1. Audit reports highlight key findings and recommendations.
2. Reports include:
 - Control system effectiveness.
 - Policy and procedural compliance.
 - Prior audit follow-ups.
 - Recommendations for addressing issues.