

Swiss Association of Actuaries guidelines on the assignment of adequate technical life reserves pursuant to FINMA circular 2008/43 “Life insurance reserves”

Parameteres for the minimal requirements test as at 31.12.2017

Adopted by the Management Board of the Swiss Association of Actuaries on 29 August 2017

Parameters for the minimum requirements test

The following parameters must be used for the minimum requirements test for the reserves for simple products as at **31.12.2017**:

Yield and longevity scenario

| Investment category | Assumed yield | | | | | | | | | | | | | | | | | | | | |
|---------------------------------|---|--------|--------------------|-----|--------------|----|--------------|---|--------------|-----|--------------|----|--------------|---|---------------|----------|-------|-----|--------------|-----|--------------|
| Shares (incl. investment funds) | 75% of the best estimate, however a maximum of 4% of the market value | | | | | | | | | | | | | | | | | | | | |
| Alternative investments | <p>(100% – v · 25%) of the best estimate, up to a maximum of v · 4% of the market value, with:</p> $v = \frac{\sigma_{Alternative\ investments}}{\sigma_{Shares}}$ <p>The resulting return based on the market values should not be higher than the assumed return on shares.</p> | | | | | | | | | | | | | | | | | | | | |
| Investment properties | 90% of the best estimate, however a maximum of 3.5% of the market value | | | | | | | | | | | | | | | | | | | | |
| Bond portfolio | <p>Amortized cost income less the following (absolute) discount depending on the rating category:</p> <table border="1"> <thead> <tr> <th>Rating</th> <th>Discount on yields</th> </tr> </thead> <tbody> <tr> <td>AAA</td> <td>0.00%</td> </tr> <tr> <td>AA</td> <td>0.10%</td> </tr> <tr> <td>A</td> <td>0.15%</td> </tr> <tr> <td>BBB</td> <td>0.45%</td> </tr> <tr> <td>BB</td> <td>2.50%</td> </tr> <tr> <td>B</td> <td>10.00%</td> </tr> </tbody> </table> <p>Basis markdown for exchange risk:</p> <table border="1"> <thead> <tr> <th>Currency</th> <th>Basis</th> </tr> </thead> <tbody> <tr> <td>EUR</td> <td>0.20%</td> </tr> <tr> <td>USD</td> <td>0.35%</td> </tr> </tbody> </table> | Rating | Discount on yields | AAA | 0.00% | AA | 0.10% | A | 0.15% | BBB | 0.45% | BB | 2.50% | B | 10.00% | Currency | Basis | EUR | 0.20% | USD | 0.35% |
| Rating | Discount on yields | | | | | | | | | | | | | | | | | | | | |
| AAA | 0.00% | | | | | | | | | | | | | | | | | | | | |
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| A | 0.15% | | | | | | | | | | | | | | | | | | | | |
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| B | 10.00% | | | | | | | | | | | | | | | | | | | | |
| Currency | Basis | | | | | | | | | | | | | | | | | | | | |
| EUR | 0.20% | | | | | | | | | | | | | | | | | | | | |
| USD | 0.35% | | | | | | | | | | | | | | | | | | | | |
| Bond reinvestments | <p>Expected returns are estimated according to the forward reference interest rate curve, with the following maximum increase:</p> $\frac{1}{3} \max(2.5\% - 10\text{ year reference swap rate}, 0.0\%)$ <p>Furthermore, the future reinvestment yield never rises over 2.50%.</p> | | | | | | | | | | | | | | | | | | | | |
| Convertible bonds | Convertible bonds are split between a bond-component and an equity-component. The bond component is treated similarly to bonds. The equity component is treated similarly to shares (and investment funds). | | | | | | | | | | | | | | | | | | | | |
| Mortgage portfolio | 93% of the portfolio's interest income | | | | | | | | | | | | | | | | | | | | |
| Mortgage reinvestments | Bond reinvestment yields increased by 80 basis points | | | | | | | | | | | | | | | | | | | | |
| Money market | Like bond reinvestment yield, however the future reinvestment yield never exceeds 1.50% . | | | | | | | | | | | | | | | | | | | | |

| Parameter | Individual insurance: safety loading or markdown | Collective insurance: safety loading or markdown |
|---|--|--|
| Mortality for pension insurance | 2.92% | 2.92% |
| Reduced mortality for pension insurance | 5.85% | 5.85% |

Biometrics and costs scenario

| Parameter | Individual insurance: safety loading or markdown | Collective insurance: safety loading or markdown |
|--|---|---|
| Mortality for endowment insurance | 8.25% | 8.25% |
| Mortality for pension insurance | 5.85% | 5.85% |
| Reduced mortality for pension insurance | 11.70% | 11.70% |
| Demographic data | Not available | None |
| Disability | 11.70% | 17.55% |
| Probability of withdrawal of disabled persons (to review expired insurances) | 11.70% | 11.70% |
| Average level of disability | None | None |
| Probability of withdrawal of disabled persons (to review ongoing benefits) | 16.50% | 16.50% |
| Costs | 8.25% | 8.25% |
| Cancellation | None | None |
| Reinsurance costs | None | None |
| Exercise of pension option on retirement | Not available | 11.70% |

Customer behavior scenario

| Parameter | Individual insurance: safety loading or markdown | Collective insurance: safety loading or markdown |
|------------------|---|---|
| Cancellation | 24.75% | 41.25% |