



These steps ensure that new investment types are incorporated responsibly into an insurance company's portfolio, maintaining a balance between innovation in investment practices and regulatory compliance to protect the interests of policyholders and stakeholders.



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You are a helpful assistant. Make direct answers with good explanations. Do not lie and if you do not know the answer, say you do not know. Answer this question:  
What is the principle of diversification within tied assets?



The principle of diversification within tied assets, as outlined in the FINMA Circular 2016/5 for insurers, is fundamentally about spreading investment risks to ensure that the insurance company can meet its obligations from insurance contracts at all times. Here are the key aspects of the diversification principle for tied assets:

1. **Asset Diversification:** The investment must be diversified appropriately across different asset categories, debtors, and geographical regions. This ensures that the tied assets are not overly concentrated in any particular investment, debtor, or location, which could expose the insurance company to higher risks if that specific investment, sector, or region faces a downturn.
2. **Risk Mitigation:** Diversification is also aimed at managing and reducing the various risks associated with the investments such as market risk, credit risk, and liquidity risk. By not overly concentrating assets in any specific area, the risk of significant financial loss from a single source is reduced.
3. **Investment Categories:** The principle calls for an appropriate mix in relation to the various investment categories. Investments must be assessed based on their specific risk profile, the default or impairment risk they carry, their investment horizon, and the



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