



How should liquidity be maintained when using derivatives in investment strategies?



To manage and report on investments in derivatives effectively, insurance companies must adhere to several critical practices according to the FINMA Circular 2016/5:

Management of Derivative Investments

1. **Risk Mitigation:** Derivatives should be used primarily for hedging risks associated with the assets or obligations of the insurance company or for efficient management of investments.
2. **Limitation on Risk Exposure:** The usage of derivatives must not expose the company to risks that exceed its capacity or the scope of its business operations.
3. **Coverage Requirements:** All potential obligations arising from derivative transactions must be fully covered at all times. This coverage can be either through the underlying assets or liquidity to ensure that the company can meet its derivative obligations without fail.

Reporting Requirements

1. **Regular Risk Analysis:** The risks associated with derivative usage, such as market and credit risks, must be regularly analyzed — weekly for market risks and monthly for credit risks.
2. **Executive Reporting:** The outcomes of these analyses must be reported to the company's executive board regularly — monthly for market risks and quarterly for credit risks.
3. **Annual Reporting to FINMA:** Companies must report their derivative activities annually to FINMA, detailing the usage, risk exposure, and compliance with the set regulatory requirements.

Liquidity Management

When using derivatives as part of their investment strategies, maintaining sufficient liquidity is crucial.



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