regulates the use of tied assets in the insurance industry, and the principle of diversification is an important consideration in their allocation. The text provided in the context information discusses the use of credit ratings as a tool for diversification within tied assets, with different credit rating levels representing varying degrees of risk and return. Additionally, the text mentions exceptions for certain types of intra-group investments, such as loans to investment companies and real estate companies, which can be counted as tied assets under certain conditions. These exceptions may also contribute to diversification by introducing different types of assets into the portfolio.

Answer 2:

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:

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.

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.