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7 months to be ready for the revision of the Swiss Insurance Contract Act – PwC accelerators to ensure on-time compliance

The Federal Council will release new regulations for Swiss insurers in 2022

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Overview of the current situation and timeline of the Insurance Contract Act in Switzerland

On 19 June 2020 the Council of States and the National Council approved the revision of the Insurance Contract Act (Versicherungsvertragsgesetz abbreviated as VVG in German). With this revision the new law is not only adapted to the requirements of the digital age, but also addresses, among other things, criticism that has been widespread in recent years.

This paper gives a short outlook on the changes that will have to be implemented by the end of 2021, food for thought on what to consider during implementation and inspiration on how the revision can accelerate your operations.

The timeline below shows the history of the revision, its current status as well as expected events in the future.

The Federal Council decided on 11 November 2020 to bring the revised Insurance Contract Act into force on 1 January 2022.

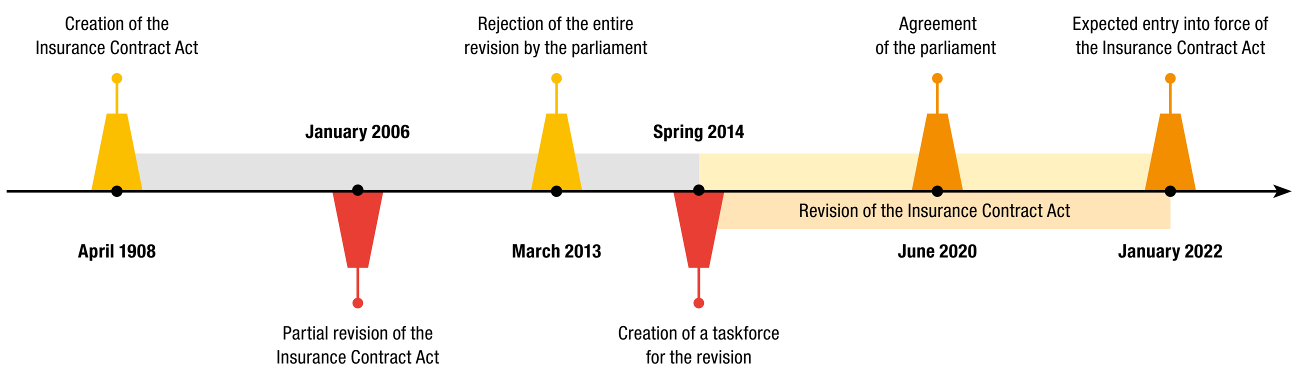


Figure 1: Timeline for the introduction of the revised Insurance Contract Act

Purpose and motivation of the revision

The protection of the policy holder
Insurance consumer protections need to be strengthened, with regard to certain provisions, e.g. the introduction of a right to withdrawal, a right of termination and the extension of limitation period.

Transparency for consumers
The purpose of the revision, among others, is to protect the insured party from disadvantages that might result from a lack of insurance knowledge on the consumer side. For this reason one of the objectives was to make insurance contracts more understandable for non-insurance experts. The aim of the revision includes maximising the intelligibility of the law with as few invasive interventions as possible.

Electronic business traffic
When in 2006 the insurance contract act was partially revised, mobile devices were merely in its infancy. Accordingly, todays regulation is taking the increased need for end-2-end digital processes into account.

Main changes of the revision

The following table illustrates the most important changes of the revision.

Preliminary draft of the VVG	Revision of the law	Explanation	Practical example
Art. 2a and 2b	A right of withdrawal of 14 days during which the policyholder can either withdraw from an insurance contract or accept it	According to this revision the insured party can withdraw from the contract within 14 days without providing a reason. The benefit of this measure is twofold. On the one hand, it gives the insured person time to think the offer over. On the other hand, it makes it easier to compare prices	If the insured person concludes a contract and after 3 days finds another offer for a cheaper price, she can still withdraw from the contract
Art. 10	The retroactive cover is authorised under certain conditions	Reverse insurance for private as well as commercial insurance is used when the insurance cover also includes cases of loss that occurred before the insurance contract was concluded	An IT consultant has conducted a professional liability insurance and included retroactive cover. Shortly afterwards a former customer gets in touch with him and files claims for damages because the customer suffered financial losses for which the consultant is at fault. The damage resulting from the consultation took place before the new insurance contract was signed. However, since the customer only contacted him afterwards, the IT consultant did not know anything about the damage when he signed the new insurance policy and is, thus, covered retroactively
Art. 35a	The termination of the insurance contract (except life insurance) is permissible by the end of the third year, at the latest. In supplementary health insurance this right is reserved exclusively for the insured	Insured persons can terminate long-term insurance contracts by the end of the third year. This also means that "adhesion contracts" will be abolished. In supplementary health insurance only insured persons are entitled to the ordinary right of termination and the right of termination in the event of a claim	An insured person signs a contract for five years. After three years, she can still terminate the contract on a legal basis. She does not have to wait for the agreed contract period of five years. The supplementary health insurer may no longer terminate the contract in the event of a claim
Art. 46	Limitation period for claims from insurance contract extended to five years	Claims from insurance contracts now become statute-barred five years after the loss event instead of the previous two years	The insured person breaks a third party's phone. He can file a claim for up to five years (even after termination of the contract) after the event that gives rise to the obligation to pay
Overall	Increasing acceptance of electronic business	Electronic business must be accepted for communications as an alternative to written form. Important documents, which must comply with formal requirements, can now be provided in written or another form, which enables the proof of text. Thus, such documents can be electronically transferred. E-commerce is possible across the entire value chain, incl. life insurance	In addition to the written form (with signature), a notice of termination in electronic text form is possible, such as by email

All changes apply as of January 2022 for future contracts. For contracts already in force, only the formal requirements (i.e. the increasing acceptance of electronic business) as well as the right of termination (Art. 35a and 35b VVG) applies. In addition, the structure of the revised law has been changed to a more transparent format. Together with the points above, the revision should make insurance contracts easier to understand for non-insurance experts through minimal invasive intervention and more transparent by avoiding generalisation.

How does the revision impact Swiss insurers?

On the whole the changes for Swiss insurers and their clients resulting from the introduction of the revised insurance law are numerous and going into the details of the law. For simplicity we have clustered the impact of the revision into three categories: products, technology and operations as shown in Figure 2. In the following chapters we will analyse the potentially impacted areas in each category.

Figure 2: The three categories impacted by the regulatory change

Products

Impact of right of withdrawal and ordinary right of termination

The aim of the new Insurance Contract Act is to alter client protections. Insurance clients will newly have a right to withdraw from a concluded insurance contract within 14 days and an ordinary right to terminate an insurance contract with a duration of 3 years or longer. Since this might lead to clients withdrawing or terminating contracts we expect deferred acquisition costs (DAC) impairment tend to go up, lapses increase in the first weeks or year, and commissions to agents should be paid out later, only once the insurer is sure that the insured decided not to withdraw after the conclusion of the contract.

The right to withdraw from policies for 14 days after the sale protects insured persons from such things as buying overpriced policies, products that are overly complex or additional covers that have been added during the sales conversation but are not necessarily needed by the insured. Hence, we expect that especially complex products will require clarification by insurance agents so that customers understand them and do not use the option to withdraw within 14 days after signing a policy. Further product simplifications make the product easier to understand. To avoid high client turnover, leaner and simpler products would help insurers increase customer loyalty and attract new clients.

Simple products with low complexity and clear communication

More extensive statistical analysis and improved actuarial analysis can help in better understanding the financial impact and determining the most competitive and fair premiums for insureds.

Product communication and complexity

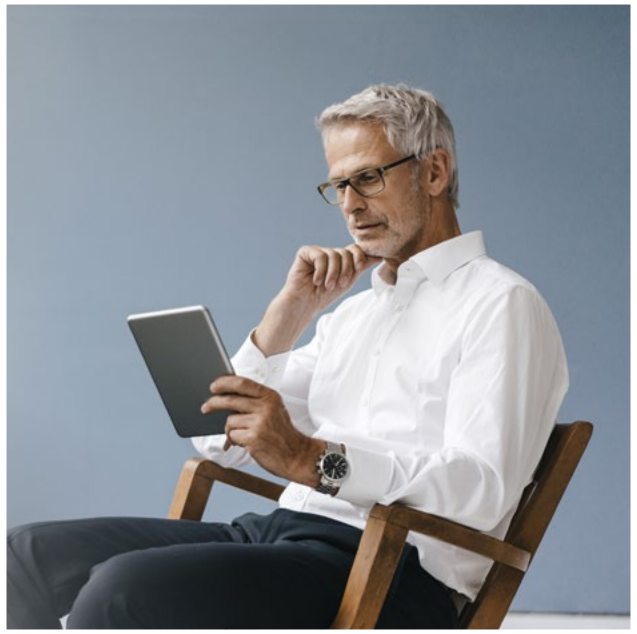
Insurers have developed their own language, which makes it difficult for clients to comprehend a policy without being a lawyer or insurance expert. Clients do need simplified wording and less complexity. This need has already been recognised by insurtech and insurance e-commerce companies, and is likely to influence other communication channels in the insurance industry. Simple products and new ways of communication offered by innovative insurtechs have put extreme pressure on existing classical insurers. To tackle this challenge, a policy should be sent out with additional information or documents can be written in more understandable language. Start-ups where communication with the customer is already a key concept may benefit from the revision of the law by taking a bigger share of the market.

Coverage expansion

By introducing retroactive coverage, insurers now have a legal basis to insure events which happened before the contract was concluded. The new regulation provides the right but not the obligation to include this expanded coverage in insurers' existing products and satisfy customer needs in this regard. This allows quick movers to gain a competitive advantage by introducing products with retrospective cover and by winning new clients.

Further, the extended limitation period for insurers might require adjustments to reserves and premiums. Under the revised law claims can be made after 5 years instead of only 2 years as permitted under the previous regulation. This might have an impact on lines of businesses (LoB) with tails that are longer than the current limitation reporting phase of 2 years – meaning claims are settled a long time after the insurance policy has expired. Accordingly, insurers should revisit their product portfolio and analyse the tails of their LoBs as this might impact determination of Incurred But Not Reported (IBNR). Consequently, extended limitation periods and potential extensions of the tails of written business could imply higher reserve requirements and ultimately lead to greater premiums. For example, for daily allowances and fire insurance in which the year of loss occurrence of the claim matters, we would expect that an extension to 5 years could mean a (slight) increase in premiums and reserves.

Assessing the effects of the prolonged limitation period and determining a potential premium increase due to non-reported data beyond the current limitation period available ("censoring of data") while remaining competitive at the same time presents a challenge to insurers. More extensive statistical analysis and improved actuarial analysis can help in better understanding the financial impact and determining the most competitive and fair premiums for insureds.



Technologies

User-friendly communication and user authentication

The revised Insurance Contract Act will recognise electronic text as an alternative to writing using emails, WhatsApp or SMS messages. This opens doors for the application of new technologies and communication tools in interaction with clients.

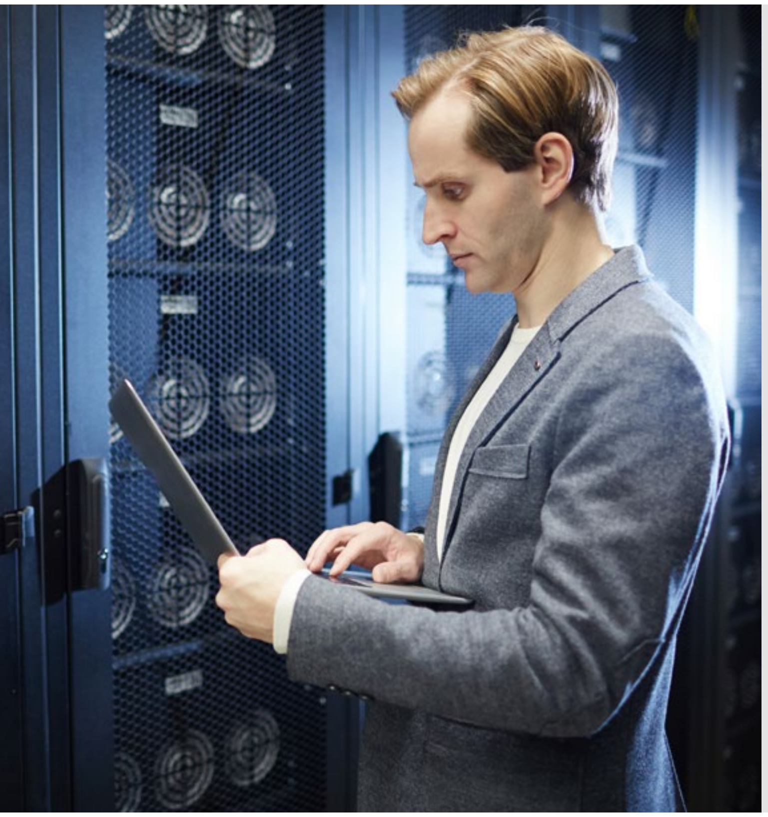
The recognition of electronic text as an official alternative to writing as well as electronic signatures have opened new paths of communication. The omnichannel media offering has been expanded in order to process client requests and legally exchange documentation. With the revision, the written form including signatures is no longer required for some business processes such as cancellation of an insurance contract based on a breach of the information duty of the insurer (see also Insurance Contract Act Art. 3a). Or the notification of the applicant regarding significant facts for the risk assessment (see also Insurance Contract Act Art. 4 para 1). On the insurer's side, reminders for premiums and late payments may newly also be sent in another form, which enables proof of text. The new right of withdrawal and the ordinary or extraordinary termination right also allow for proof of text other than the written form. Insurers and policyholders can do this via app or online, which simplifies communication for both parties. What's more, email, WhatsApp and SMS can further simplify communication for insurers and insurance clients. Insurers should consider this loosening of the law in their omnichannel strategy as more media channels will become legally recognised for cancelling a policy and presenting other documentation. Ultimately processes can be redesigned in a leaner and thus more customer-friendly way.

In contrast, sensitive data are subject to highly protected processing regulations. For sensitive data operations involving health data, political engagement or sexual orientation, a client is required to verify his or her identity. This should be done by initial validation of the client's identity and re-verified for every request for sensitive date by two-factor authentication. This proof of identity can be presented by a password and by a code sent via SMS.

Data compliance

As they transition to online services, insurers should assess the impact of personal data and especially sensitive categories of personal data being sent from a technological perspective. For example, should users be reminded about not sending sensitive data in case the data are not protected sufficiently? There are strict regulations on how to deal with personal client data. Thus, a close alignment with the data protection manager should take place when redesigning insurance distribution and introducing new technologies.

With the revision of the federal act for data protection on the horizon, insurers should consider creating synergies between the two projects when processes are streamlined and redesigned.



Data compliance and data security

In Switzerland the data protection law was revised three years ago. The new regulation in Switzerland was initiated in line with the European regulation for data protection – EU-GDPR, which came into force in May 2018.

The revision includes, in particular, requirements for the use of new technologies, data security and information about data processing, which affects the distribution of policies.

For more details concerning the revised data protection law in Switzerland, see our publication on this topic: "New Swiss Federal Act on Data Protection: 5 changes to remember" and "What does the revision of the Swiss Data Protection Act entail, and how does it relate to the GDPR and the ePrivacy Regulation?"

What does the revision of the Swiss Data Protection Act entail, and how does it relate to the GDPR and the ePrivacy Regulation?"

End-2-end full automation

In times of increasing digitalisation and especially during COVID-19, consumers expect to complete more and more transactions online. Before the release of the revised Insurance Contract Act, written documentation represented a major barrier for end-2-end online transactions. It was possible for insurance clients to select a policy online, but a hand-written document for addendums was still necessary in order to close the deal, which interrupted the end-to-end distribution. With this legal obstacle removed, insurers can finally adapt to the needs of consumers by offering fully automated end-2-end processes and enter into contracts online. The same applies to contract cancellation. Upgraded backend technology can now legally process contract terminations, automating the entire process from receipt of the cancellation email to confirmation. An additional benefit is that insurers save costs owing to less paperwork and the full automatisation of processes.

Particularly in the insurance sector, business processes are tremendously paper intensive and require a lot of effort to collect, process and analyse high volumes of data every day. Further insurers are faced with a multitude of different unstructured data contained in documents such as invoices, vehicle documentation, accident reports, medical reports or contract cancellations.

Operations

Redesign processes – Change management and training

We believe Swiss insurers do not have to undergo significant transformations to realise benefits from this revision. Processes will have to undergo changes from a legal, functional and technical perspective. Additionally, staff must be trained with respect to process changes imposed by the revision. Claims processes must be adapted to ensure the correct handling of the extended limitation period for claims and potentially of the retrospective cover. Besides that, we recommend adapting the processes for the new right to withdraw from and cancel contracts. Core systems must be set up accordingly, and employees working with the backend must be instructed.

Pressure on customer centricity in sales

Today consumers already have a vast number of insurance services, coverages and prices to choose from. This has led to a higher volume of customer run-through. The new regulation puts even more pressure on insurance companies to retain their clients. In a highly competitive market, insurers are faced with the threat of higher customer churn and will have to keep customer satisfaction high. Processes and operations will have to be transformed to fulfil higher customer expectations regarding service time, quality and availability. Behaviour science shows that barriers are created when customers are not satisfied with the value provided to them in the long term. Therefore, insurers must focus on helping customers rather than generating revenue through product sales.

Sales divisions must shift their priority from pure profit making to informing and serving the client. For example, a customer service representative (digital coach or real person) can help inform clients about the latest changes that are going into effective with the revised law and by answering questions they may have without making them feel obliged to purchase anything. This may decrease insurance sales in the short term, but it will increase customer loyalty in the long run.

What insurers need to do within the next 7 months

Regarding the revision, companies must analyse their current status and ideally adapt their processes and technology to the new regulation. The first step should be a company-wide analysis of the specific impact of the change.

Together with our actuarial, technology, legal and business experts, we have developed a prioritised step-by-step approach as a guideline on what to do in the next 7 months. PwC experts can support you in responding to the regulatory changes in a way that fits your situation best. As shown in the following illustration we would like to guide you through the steps for a structured approach to understanding the impact of the regulatory changes and to harnessing the opportunities created by the revision.

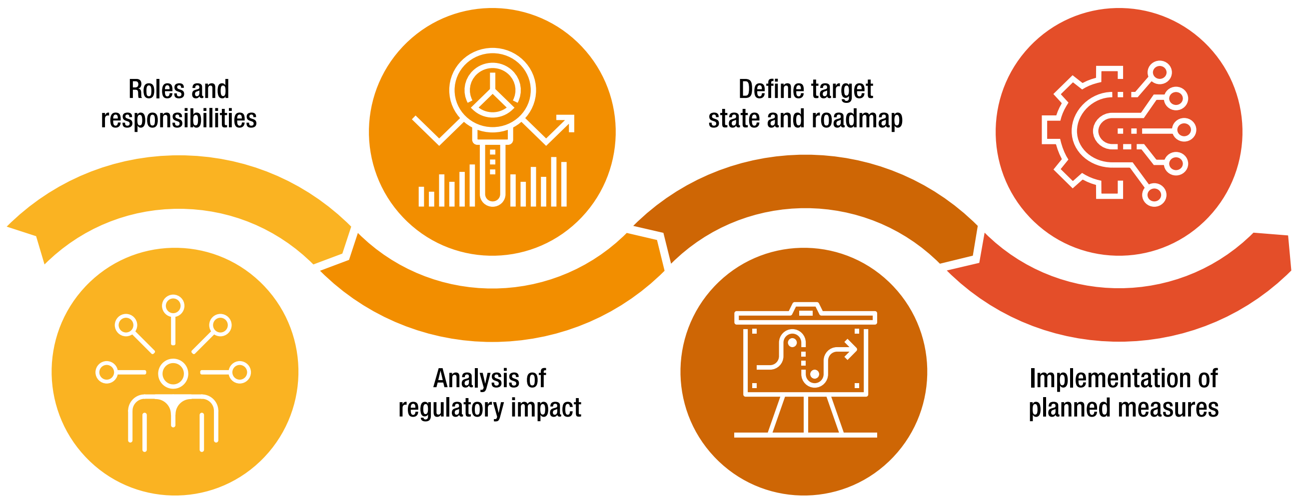
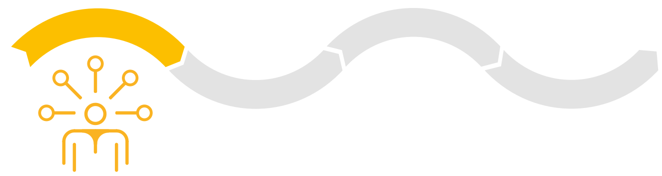


Figure 3: Four-step high level methodology for implementing regulatory initiatives



Define roles and responsibilities

- Clear definition of roles and responsibilities (taskforce or constant division).
- Alignment of roles across the corporate strategy, geographies and business units.
- Task force must contain functional representatives of Actuary, IT, Business and Legal experts.

Analysis of regulatory impact

- Assess the company's situation in connection with the impact of the regulatory change
- Select a wide scope for the first-step analysis in order to detect dependencies and be able to narrow them down later
- The following table shows requirements that must be fulfilled from a regulatory standpoint (high priority) and requirements that should be analysed from a business standpoint (low to middle priority)

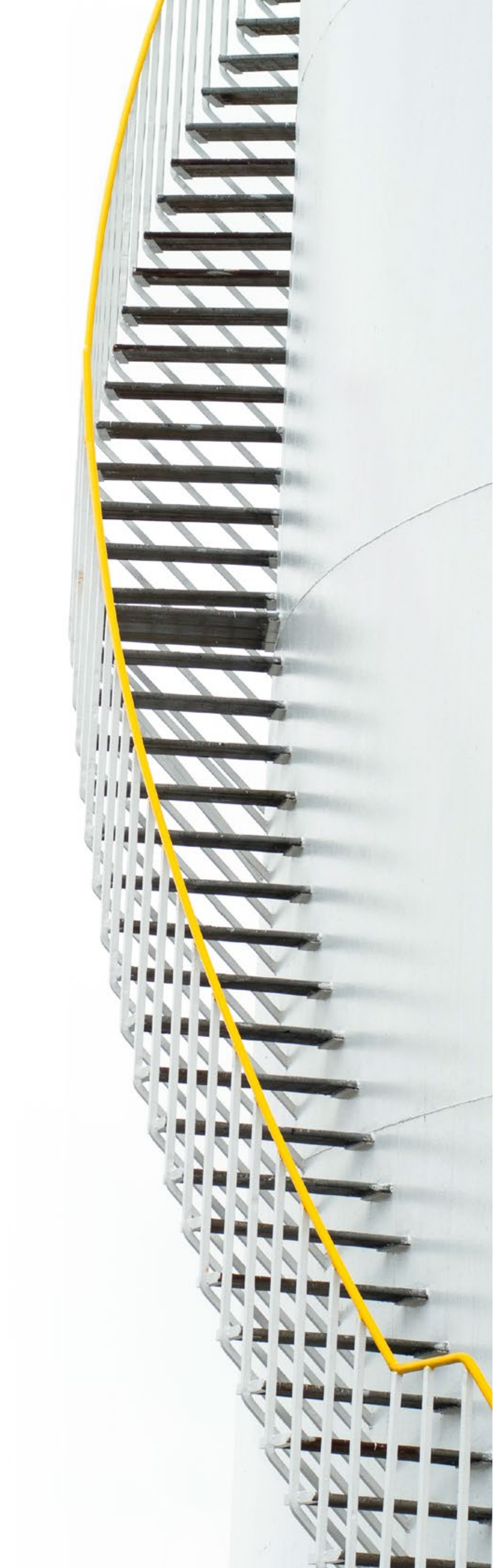
Priority	Related Article	Impacted department	Description
High	Art. 2a and 2b; Art. 35a ; Art. 35c ; Art. 46	Legal	Setup revised general terms and conditions for the new right of withdrawal and the right of termination and prepare client information (Attention health insurers: one additional change in cancellation terms)
High	Art. 2a and 2b; Art. 35a ; Art. 35c ; Art. 46	Legal	Adapt contract templates
High	Art. 46	Operations	Adapt claims processes
High	Art. 2a and 2b; Art. 35a ; Art. 35c ; Art. 46	Operations	Training of sales, backend and claims
High	Art. 2a and 2b; Art. 35a ; Art. 35c ; Art. 46	IT	Template (payload adjustment) enabling print of adapted documents
High	Art. 46	IT	Claims system – adapt validation mechanism to allow First notice of loss backdated 5 years
High	Art. 35a	IT	Allow for ordinary cancellation after 3 years in policy management system
High	Art. 35a	IT	Change contract duration to 3 years
Middle	Art. 46, Art 10	Product	Analyse impact on premium and reserves. There might be the need to adjust pricing tables e.g. Fire insurance or Daily allowance
Low	Increasing acceptance of electronic business	IT	Evaluate potential for process automatisation such as the termination process (If contract was terminated digitally)
Low	Increasing acceptance of electronic business	IT	Analyse the need to expand the client – insurer communication / omnichannel offering
Low	Art. 10	Product	Evaluate the introduction of a retroactive coverage in order to secure competitive advantage. Consider the impact on product, claims and sales
Low	Increasing acceptance of electronic business	Operations	(Re-) assess requirements and synergies for data protection framework in connection with increased electronic text form

Target and roadmap

- Identify “must-haves” from a regulatory perspective and potential to realise opportunities such as competitive advantages.
- Define business case for non-regulatory requirements.
- Evaluate and prioritise all objectives based on expected risk, outcome and required resources.
- Align each objective with the corporate strategy (there may be discrepancies between regulatory requirements and strategy).
- Allocate a time and financial budget for each block of objectives – to ensure continuous planning and controlling define a roadmap with measures including a cost estimate for each bucket.

Implementation phase

- Implementation of the planned measures to achieve target.
- Constant comparison of cost and budget (quality of roles and responsibilities setup become most important during this phase).
- A line of reporting for escalation must be present in case of deviation from the plan.
- Continuous controlling and recalibration will be main tasks in this phase.
- To complete this last phase it is advisable to generate a lessons-learned protocol for future regulatory modifications.



Conclusion

What are the challenges for Swiss insurers connected with the revision? In the chapters above we structured the impact of the revision into three categories that are likely to change the way Swiss insurers operate today. Within these categories there will be several hard requirements that companies need to implement in order to be compliant. Soft requirements on the other hand are helpful to stand out from the competition and improve customer retention.

Hard requirements are the adaption of processes, documents and systems to the new withdrawal and cancellation rights and to the extended limitation period. Equally important is the training of sales, claims and backoffice staff with respect to the updates. We recommend actively informing clients about changes and to offer support for any questions on the revision.

Some insurers may see an impact to claims due to the extended limitation period, such as daily allowances or fire insurance, which impose price changes or increases in reserves. We expect many Swiss companies to capitalise on the opportunities and grow with the changes that come with the revised Insurance Contract Act. The revised law might force Swiss insurers to create more customer-centric operations and simpler products. As with the retroactive cover, insurers have a legal basis now from which to offer extended coverage and satisfy customer needs in this regard.

New technologies can close the gaps to full end-to-end automation. Additional communication tools can be introduced in order to increase customer satisfaction. Expanded use of media is accepted as the official way of transferring documents and terminating and concluding contracts. There are many new doors opening to expand customer support and increase the quality of sales processes.

As many insurers have recently invested in their front-office applications, improved their customer and prospect insights with analytics, and designed new customer experiences, the laggards should use the revision as a signal to change their mindset. First movers in the industry, who were limited in their technological capabilities prior to the revision, are likely to further develop their online sales offering to accommodate the needs of the younger generation in line with their online strategy.

How can PwC support you?

The changes to the Insurance Contract Act are yet another push for insurance companies to adapt to an ever-changing digital world. The revision brings changes in regulatory requirements for Swiss insurers, which affect many parts of the organisation. We at PwC have deep knowledge in each of these areas. Furthermore we provide years of experience in implementing regulatory changes, which allows us to ensure seamless support across all business divisions.

In order to aid you in mastering your challenges, we provide profound understanding from a legal, actuarial and technological perspective, which we have drawn on in the past to successfully guide our clients in defining and achieving their objectives. On top of that we can leverage hands-on knowledge from related insurance projects in data protection, change and process management, cyber security and front/backoffice transformation.

We continuously assist insurers in focusing on efficient IT solutions, and we collaborate with IT providers to accelerate requirements for client verification and secure online transactions. New technologies can automate data classification processes and thus reduce manual processes, if not make them obsolete.

We would be happy to discuss together with you the impact which the revised Insurance Contract Act might have on your company and your services and support you in finding the best solution.

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