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Part 3: FOPI Outlook

Speech by Monica Mächler
Director, Federal Office of Private Insurance FOPI

Integration potential of SST and tied assets

The two instruments SST and tied assets, the first of which constitutes a new development whilst the second has undergone a far-reaching update, allows us to show very easily which questions we want to approach with the Integrated Supervision project. Both instruments concern the balance sheet total: The tied assets focus on the cover of technical obligations, and the SST focuses on equity capital needs and their cover in accordance with a market-oriented valuation of the entire balance sheet. In the Integrated Insurance Supervision project, we are asking whether the market-oriented approach of the SST can be transferred to the tied assets, or whether a statutory perspective must be deliberately adopted in certain areas. Furthermore, we must ask whether – after expiry of the transitional system by the end of 2010 – the SST allows us to do without the calculation of Solvency I. Finally, we must ask whether with appropriate risk management this allows us to do without the percentage limits on assets in the tied assets. On top of this, we must be able to represent the financial situation of the undertaking in an integrated way with respect to both reserves and equity capital.

The second level of integration

Allow me to take a look at the aforementioned second level of integration, namely the level of international cooperation between supervisory authorities. Numerous States and organizations now invest substantial resources in the development of their supervision law. For instance, a significant impulse is to be expected from the draft of the Solvency II Framework Directive of the EU, scheduled for July 2007. In addition, the supervision of insurance groups and conglomerates operating in multiple locations requires an increasingly close cooperation among supervisory authorities, with a clear definition of their roles. Close exchanges exist with the competent authorities of the EU, the European States, the U.S. National Association of Insurance Commissioners, the International Association of Insurance Supervisors (IAIS), the OECD, and other organizations and States. Our goal is to help shape processes by participating in the responsible bodies, but also to take up new insights and, where useful, to integrate these insights into our own supervision system.

The priority for FOPI is that clear protocols of cooperation for the interactions between domestic and foreign supervisory authorities be developed, in order to carry out efficient cross-border supervision of insurance groups and conglomerates operating in multiple locations. This is especially true with respect to recognition of FOPI as the Lead Supervisor for insurance groups and conglomerates directed from Switzerland. Since last year, FOPI has achieved EU-wide recognition as the Lead Supervisor of three insurance groups.

The third level of integration: FINMA

In parallel, we are embarking on the path towards establishment of the new Integrated Financial Market Supervisory Authority, FINMA. The Financial Market Supervision Act (FINMA Act), which is currently being considered by Parliament, envisages an integration of the Swiss Federal Banking Commission, the Federal Office of Private Insurance, and the Money Laundering Control Authority into a single authority that will, as an autonomous establishment under public law, bear the name FINMA. The draft law envisages that the aforementioned authorities will be integrated, but that supervision will be carried out in accordance with the sector-specific supervision laws.

From the perspective of FOPI, it is crucial that the integration of the different authorities be able to strengthen the parameters of of Switzerland as a financial centre and take full advantage of synergies. At the same time, the different risk profiles of the activities subject to supervision must be taken into account in a balanced way.

Outlook

As outlined above, the stages that FOPI must tackle in the coming months and years are equally challenging and interesting. The path taken not only increases the regulatory demands on risk-awareness and transparency on the part of the insurance industry; it also increases the demands on integrated insurance supervision.

For an authority the size of FOPI, these demands can only be met with targeted additional measures. The restricted financial and human resources of FOPI therefore necessitate an efficient transfer of know-how and effective use of highly qualified staff members. With the expansion of staff levels by about 30 positions approved by Parliament at the end of 2005, FOPI is, in this first phase, now better armed to undertake the implementation of the demanding new ISA. Our team is committed and, as you have seen today, also willing to actively approach the new challenges.

Against the background of a dynamically developing environment, however, resource-related options are limited. Given the multitude of new responsibilities, and because we are continuing to engage in time-consuming activities such as preventive quality assurance in the field of supplementary health insurance and collective life insurance, additional measures are therefore necessary, especially to improve efficiency.

In conclusion, it can be noted that Switzerland has a modern set of tools for insurance supervision at its disposal. To adequately confront the dynamic development in the insurance market, the task is now to press ahead with integration of the supervision model in a targeted manner, so that the effectiveness of the regulatory measures can be further improved. A precondition is prudent national and international cooperation in supervision activities, but also the willingness of insurance undertakings to adapt themselves consistently and with the necessary risk-awareness and requisite transparency in the face of increasingly intense competition.