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Market Overview 2007

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Introduction

Unlike in previous years, the Annual Report 2007 of the Federal Office of Private Insurance (FOPI) appears in two parts: The first part was presented as an activity report at the annual media conference on 17 April 2008. The second (numerical) part presented here, which is based on the 2007 reporting of the supervised insurance undertakings and groups, is being published in June 2008 on our website.

The following figures are drawn from the reports on the 2007 business year submitted to us for individual undertakings by 30 April 2008; accordingly, the 2007 figures of reinsurers, which do not require submission prior to 30 June 2008, are therefore not yet included. The figures of insurance groups and conglomerates were compiled by way of a survey and are largely based on the data contained in the published business reports.

In the following, key figures from individual supervision will first be presented and commented upon, before the corresponding key figures from group supervision will be presented.

The table in Annex I shows the number of insurance and reinsurance undertakings supervised by FOPI. This number also contains the health insurance schemes under public law that are supervised by FOPI with respect to private supplementary health insurance.

Annex II provides definitions that serve to improve the understanding of the figures on individual supervision presented below.

1. The insurance undertakings supervised in Switzerland (individual supervision)

1.1 General remarks

The figures from the 2007 annual accounts used in the part on individual supervision are based on the reports submitted by the supervised direct insurers and health insurance schemes to FOPI pursuant to article 25 of the Insurance Supervision Act by 30 April 2008. The data on the tied assets of direct insurers and health insurance schemes are taken from separate reports. Insurance undertakings only providing reinsurance must submit their reporting by 30 June 2008. Accordingly, the figures of reinsurers are not included in this report. For the comparison figures from the previous years of 2005 and 2006, we have used the FOPI-audited reports on the annual accounts, the calculation of Solvency I, and the tied assets as well as our own annual publication "Private insurance institutions in Switzerland".

For companies domiciled in Switzerland, the statutory annual accounts serve as the basis for the reporting of individual undertakings. For branches of foreign companies that do not compile separate annual accounts and for health insurance schemes with private supplementary insurance business, abbreviated reports are submitted to FOPI.

The figures submitted by the supervised insurance undertakings by 30 April 2008 are, in the case of some companies, still subject to approval by their respective annual general meetings.

1.2 Concept of integrated insurance supervision

The main purpose of supervision is to protect policyholders against the insolvency risk of insurance undertakings. While supervision ensures that insurance undertakings remain solvent with a high degree of probability, insolvencies cannot be ruled out completely.

Against this background, the concept of integrated supervision applies. Integrated supervision consists of a traditional part, which covers Solvency I (volume-based, simplified capital requirements), technical provisions, tied assets and investment directives, rules for individual insurance classes, reporting, and miscellaneous.

This is supplemented by a quantitative part, which in particular includes the economic capital model of the Swiss Solvency Test (SST). The third component is the qualitative part, which serves to ensure implementation of action goals primarily in the areas of corporate governance, risk management, and the internal control system, but also with respect to internal and external audits, the responsible actuary, the asset investment processes, and other processes.

1.3 Guard rail function of supervision

It is significant that these areas of traditional, quantitative, and qualitative supervision contain different supervision approaches: In traditional supervision, fixed rules are provided, while in quantitative and qualitative supervision, action goals are established that must be implemented in a risk-oriented manner by the insurance undertakings. This implementation is verified by insurance supervision in an iterative process. The insurance undertakings must take responsibility themselves for the implementation, and they must incorporate this responsibility in

their internal processes. The interplay between fixed rules and action goals – i.e. the so-called principle-based approach – is very important in this regard.

To protect insured persons from insolvency risks, FOPI has the following supervision instruments at its disposal, among others:

1.3.1 Technical provisions and tied assets.

- According to article 17, paragraph 1 of the Insurance Supervision Act, every direct insurer and every health insurance scheme offering private supplementary health insurance is required to secure technical provisions by setting aside tied assets. Which assets can be allocated to tied assets is determined by the investment directives (Directives on investments in tied assets as of 12 June 2006). The target amount to be covered corresponds to the technical provisions pursuant to article 16 ISA, plus an appropriate surcharge.

1.3.2 Capital requirements

- Solvency I. According to article 9 of the Insurance Supervision Act, the insurance undertaking must have sufficient free and unencumbered own funds (solvency margin) to be able to cover the solvency required on the basis of its business activities. According to article 22, paragraph 1 (a) ISA, the solvency of insurance undertakings is determined in accordance with the business volume and compared with the available solvency margin (allowable own funds). The allowable own funds expressed as a percentage of the required solvency margin is the solvency ratio. This ratio indicates the extent to which the required target amount is covered. In addition to the share capital reported in the statutory annual accounts and the reserves, the insurance undertaking may apply to have other elements with the character of equity capital allowed against the available solvency margin, such as the Zillmer reserve, provisions, valuation reserve, and also hybrid instruments.
- Swiss Solvency Test. With the Swiss Solvency Test (SST), insurance supervision also has a modern risk-based supervision instrument at its disposal for determining target capital. The SST is based on the total balance sheet approach and the principles of market-consistent valuation and risk-based capital requirements. The basic principles of the SST are largely identical with those of Solvency II. Since 2004 several field tests have been conducted, and in 2008 all insurance undertakings and insurance groups were required to carry out the SST for the first time. The evaluations of the SST are published in the following year. Starting in 2011, all insurance undertakings subject to Swiss supervision must fulfil the target capital in accordance with the SST solvency requirements.

To effectively fulfil its role as an instrument for the review of solvency it must be ensured that the SST is supplemented by effective risk management practices by the insurance undertakings and that it is embedded in well balanced and practiced corporate governance. The Swiss Solvency Test is thus supplemented by the Swiss Quality Assessments, which audit the risk management and corporate governance of the supervised undertakings.

1.4 Overview of selected key figures

(Figures in % or CHF million)	Life insurers			Non-life insurers		
	2005	2006	**2007**	2005	2006	**2007**
Technical provisions (gross)	230,852	229,971	**229,042**	32,873	33,280	**35,799**
Capital investments (own risk)	271,910	274,656	**283,395**	118,870	128,432	**130,579**
Return on capital investments (own risk)	4.35%	3.99%	**3.71%**	3.03%	3.22%	**5.22%**
Statutory equity capital before PA	8,055	9,335	**10,281**	20,402	23,888	**23,173**
Annual result	1,611	1,689	**1,949**	2,477	4,444	**5,981**
Solvency ratio	245.65%	250.70%	**239.95%**	317.23%	331.24%	**275.60%**
Combined ratio (gross)	n/a	n/a	**n/a**	97.41%	87.10%	**92.24%**
Cost ratio (gross)	11.43%	11.34%	**11.12%**	22.69%	23.81%	**25.17%**
Gross premiums earned (market figures)	36,024	34,272	**35,702**	47,491	49,014	**47,000**

The key figures in the table above will be commented on in more detail in the following sections.

1.5 Trends and developments

1.5.1 Technical provisions

(Figures in CHF million)		Life insurers [1]		
		2005	2006	2007
	Private pensions			
	Actuarial reserve (capital investment risk and biometric risks of LI)			
1.	Endowment insurance	64,718	62,907	60,697
2.	Annuity insurance	22,286	22,527	22,539
	Fund balance (capital investment risk of PH, biometric risk of LI)			
3.	Unit-linked life insurance	15,086	16,822	17,395
	Group pensions			
	Occupational pensions			
4.	Old-age balance of members, pension actuarial reserves and other technical provisions of group occupational pensions	120,083	118,041	118170
	Other group insurances			
5.	Other actuarial reserves, especially residual debt insurance	20	25	38
6.	**Total actuarial reserve, private and group pensions (gross)**	**222,193**	**220,322**	**218,839**
7.	Unearned premiums	1,698	1,679	1,643
8.	Allocated profit shares	4,353	4,587	4,474
9.	Other technical provisions incl. claims provisions	2,608	3,383	4,661
10.	**Total technical provisions Switzerland (gross)**	**230,852**	**229,971**	**229,042**
11.	Retroceded share	2,728	522	570
12.	**Total technical provisions Switzerland (net)**	**228,124**	**229,449**	**228,472**
13.	**Surplus fund Switzerland**	2,499	2,989	3,578

This table illustrates direct Swiss life insurance business of Swiss life insurers (without branches abroad) and of branches of foreign life insurers in Switzerland.

In general, the total of technical provisions has declined slightly, correlating with the decrease in premium volume in recent years.

[1] Including branches of foreign companies

The decline in individual endowment insurance (row 1) is significantly more striking than in the other classes of life insurance (rows 2, 3, 4 and 5). One explanation of this can be found in our analysis of the individual life insurance market in the Annual Report 2007. The strong decrease among classical single-premium individual endowment insurances since 1998 will also have an effect in 2008 on the amount of technical provisions in individual endowment insurance. The bulk of the single-premium individual endowment insurance policies concluded in the boom years 1994 – 1998 was for a term of 10 years. These policies will expire in 2008 at the latest and will be paid out.

In contrast with classical individual insurance and occupational pensions, unit-linked life insurance was again expanded, without, however, compensating for the decline in other lines of individual life insurance.

The reduction of the retroceded share (row 11) is also striking. This is due to restructurings of the reinsurance business of two foreign-dominated life insurance undertakings.

The efforts of life insurance undertakings to improve their solvency situation are reflected in the development of other technical provisions (row 9). These contain the equalisation funds, which serve to compensate fluctuations on the liability and asset side over time. They can be counted toward the solvency capital.

The surplus fund (row 13) was allocated a share totalling CHF 1,737 million from the business result of the year 2007. The surplus fund is a technical balance sheet item for the provision of surplus shares allocated to policyholders. Policyholders are allocated surplus participation from the surplus fund on an annual basis. The surplus fund has the additional function of smoothing out surplus participation over time and transparently structuring the distribution. From the perspective of policyholders, smoothing out surplus participation is desirable in order to achieve a certain stability and predictability in the amount of the distributed surplus shares over the course of the policy term.

Non-life insurers [2, 3] (Figures in CHF million)	2005			2006			**2007**		
Classes	Gross premium earned	Gross claims provis.	Provision rate	Gross premium earned	Gross claims provis.	Provision rate	**Gross premium earned**	**Gross claims provis.**	**Provis. rate**
Accident	2,683	9,239	344	2,736	9,425	345	**2,812**	**10,530**	**374**
Health	6,092	4,238	70	6,252	4,196	67	**6,265**	**4,332**	**69**
Motor vehicle liability	2,505	10,446	417	2,572	10,985	427	**2,629**	**11,518**	**438**
Other motor vehicle	2,613	382	15	2,660	369	14	**2,732**	**392**	**14**
Transport	443	355	80	452	351	78	**466**	**359**	**77**
Fire & natural hazard	3,429	2,459	72	3,457	1,936	56	**3,476**	**2,070**	**60**
Liability	1,860	5,040	271	1,947	5,267	271	**1,880**	**5,767**	**307**
Credit and surety	185	186	101	206	213	103	**249**	**228**	**91**
Financial loss	216	195	90	216	175	81	**216**	**205**	**95**
Legal protection	288	313	109	311	343	110	**333**	**376**	**113**
Traffic service	148	20	13	154	20	13	**159**	**22**	**14**
Total	20,462	32,873	161	20,962	33,280	159	**21.217**	**35,799**	**169**

In general, non-life insurers increased their total claims provisions in 2007 relative to the previous year by 7.6% and in 2006 relative to 2005 by 1.2%. Even if part of these increases is due to greater business volumes, the development of the provision rate (ratio between the gross claims provisions and the gross premiums earned) shows that the claims provisions in some classes have been strengthened more than in others.

1.5.2 Tied assets

(Figures in % or CHF million)	**Life insurers [4]**			**Non-life insurers [4, 5]**		
	2005	2006	**2007**	2005	2006	**2007**
Coverage of tied assets	237,708	240,001	**239,543**	44,695	52,769	**56,882**
-Target amount	-226,706	-228,361	**-227,887**	-34,739	-44,310	**-45,352**
Surplus coverage	11,002	11,640	**11,656**	9,956	8,459	**11,530**
Surplus coverage in % of target amount	4.85%	5.10%	**5.11%**	28.66%	19.09%	**25.42%**

Among both life insurers and non-life insurers, the technical provisions must be covered with assets corresponding to the investment directives. Not included in the figures above are the tied assets to be provided for the foreign client base abroad.

The striking increase in the target amount among non-life insurers in 2006 is due to the rule introduced with the new Insurance Supervision Act on 1 January 2006, according to which the target amount must now correspond to the gross amount of liabilities (without deduction of the reinsurance coverage).

On 1 January 2006, the new Insurance Supervision Act (Federal Law of 17 December 2004 on the Supervision of Insurance Undertakings, ISA) entered into force. The new

[2] Direct Swiss business of non-life insurers, without the business of their branches abroad, including the branches of foreign companies without health insurance schemes
[3] The provisions encompass the gross provisions for claims occurred but not yet settled and the actuarial reserve
[4] Incl. branches of foreign companies
[5] Incl. health insurance schemes

investment directives deriving from the new ISA also introduced new investment categories, which is why the following figure is limited to two years:

a. Life insurers

Tied assets	**Life insurers** [6]		
Investments (own risk)		31.12.06	**31.12.07**
Cash deposits		3.64%	**2.41%**
Bond issues, convertible bond issues		53.99%	**55.25%**
Structured products, credit derivatives		0.52%	**0.80%**
Other promissory letters		5.49%	**4.95%**
Equity and participation certificates		5.30%	**5.56%**
Real estate		12.94%	**13.18%**
Mortgages		8.93%	**8.69%**
Alternative investments		4.80%	**5.67%**
Financial derivative investments		0.02%	**0.23%**
Collective capital investments		2.55%	**2.83%**
Transitional provisions for values no longer allowable		1.82%	**0.43%**
Total		100.00%	**100.00%**

The asset allocation of the tied assets of life insurers has remained nearly unchanged in the years 2006 and 2007. Under the category “transitional provisions for values no longer allowable”, assets still allowable until the end of 2008 but no longer allocable under the new investment directives are included. With respect to derivatives, it should be noted that the allowability is calculated according to the current market value, and that the share reported here therefore says nothing about the actual exposures of these instruments. Investments replicated by derivatives (e.g. equity futures) are allocated directly to the investment category in question.

b. Non-life insurers

Tied assets	**Non-life insurers** [6, 7]		
Investments (own risk)		31.12.06	**31.12.07**
Cash deposits		4.68%	**5.71%**
Bond issues, convertible bond issues		54.39%	**55.03%**
Structured products, credit derivatives		1.39%	**0.95%**
Other promissory letters		1.70%	**2.00%**
Equity and participation certificates		8.00%	**6.78%**
Real estate		11.54%	**11.01%**
Mortgages		6.35%	**6.20%**
Alternative investments		1.81%	**2.06%**
Financial derivative investments		0.03%	**0.09%**
Collective capital investments		4.26%	**5.98%**
Transitional provisions for values no longer allowable		1.17%	**0.15%**
Accounts receivable from reinsurers		4.68%	**4.04%**
Total		100.00%	**100.00%**

[6] Incl. branches of foreign companies
[7] Incl. health insurance schemes

Also among non-life insurers, the asset allocation of tied assets changed only insignificantly in 2007 relative to the previous year. Since 1 January 2006, non-life insurers may allocate accounts receivable from reinsurers to tied assets, under certain conditions.

With respect to derivatives, the same remarks apply as for life insurers.

1.5.3 Key figures on investment transactions [8]

(Figures in % or CHF million)	**Life insurers**			**Non-life insurers**		
	2005	2006	**2007**	2005	2006	**2007**
Capital investments (own risk)	271,910	274,656	**283,395**	118,870	128,432	**130,579**
Investment earnings	11,841	10,909	**10,354**	3,428	3,978	**6,757**
Return on capital investments*	4.35%	3.99%	**3.71%**	3.03%	3.22%	**5.22%**

*includes all investments, using non- rounded figures

Among life insurers, the trend toward capital investments has increased over the past three years. At the same time, however, the investment earnings overall have worsened. This constellation has led to steadily lower rates of return on capital investments.

Among non-life insurers, in contrast, the investment earnings have improved overall, and were even roughly 70% higher in 2007 than in the previous year. Not counting the investment earnings of one major non-life insurer that are characterised by special items, the return on capital investments among all other insurers was still 3.63% in 2007.

a. Life insurers

Capital investment mix	**Life insurers [9]**		
Capital investments (own risk)	31.12.05	31.12.06	**31.12.07**
Real estate and buildings	10.53%	10.37%	**10.33%**
Capital investments in affiliated companies and holdings, capital investments among shareholders	5.83%	5.27%	**4.22%**
Equity, other non-fixed-interest securities, and fund units	9.30%	10.38%	**11.35%**
Fixed-interest investments	51.10%	54.11%	**55.31%**
Mortgages receivable	8.54%	8.29%	**7.84%**
Loans and government ledger bonds	7.34%	6.73%	**6.05%**
Other capital investments [10]	7.36%	4.85%	**4.90%**
Total	**100.00%**	**100.00%**	**100.00%**

Among life insurers, capital investments at own risk cover approximately 90% of the balance sheet total. The largest item – fixed-interest investments – accounts for a share of over 50% of all capital investments. Adding in mortgages receivable, the share of interest-bearing investments even tends toward two thirds of capital investments or approximately 60% of the balance sheet total. The share of equity and other non-fixed-interest securities (including fund units) is increasing steadily and has now passed the share of real estate and property. However, the industry is still far away from the equity shares in 2000 and 2001, some of which were twice as high.

[8] Without branches of foreign companies and without health insurance schemes
[9] Without branches of foreign companies
[10] These include policy loans and insurance benefits paid in advance, time deposits and similar capital investments, claims on deposits arising from reinsured policies, and other capital investments.

b. Non-life insurers

Capital investment mix	**Non-life insurers [11, 12]**		
Capital investments (own risk)	31.12.05	31.12.06	**31.12.07**
Real estate and buildings	5.37%	4.99%	**4.87%**
Capital investments in affiliated companies and holdings, capital investments among shareholders	33.52%	30.64%	**28.52%**
Equity, other non-fixed-interest securities, and fund units	6.79%	7.74%	**8.36%**
Fixed-interest investments	37.45%	39.28%	**41.24%**
Mortgages receivable	2.84%	2.84%	**2.98%**
Loans and government ledger bonds	5.87%	7.89%	**8.46%**
Other capital investments [13]	8.16%	6.62%	**5.57%**
Total	**100.00%**	**100.00%**	**100.0%**

Also among non-life insurers, fixed-interest investments are the most important component of the investment mix, and their importance has even increased over the past three years. The category "capital investments in affiliated companies and holdings, capital investments among shareholders" is as large as it is because a very large part is due to non-life insurers which are parent companies holding insurance companies. Among non-life insurers as well, the share of equity and other non-fixed-interest securities and investment funds is steadily rising, but is still at a far lower level than among life insurers.

1.5.4 Key figures on equity capital

(Figures in % or CHF million)	**Life insurers [11]**			**Non-life insurers [11, 12]**		
	2005	2006	**2007**	2005	2006	**2007**
Statutory equity capital before PA	8,055	9,335	**10,281**	20,402	23,888	**23,173**
Share of equity in the balance sheet total	2.57%	2.96%	**3.20%**	14.91%	16.13%	**15.64%**
Annual result	1,611	1,689	**1,949**	2,477	4,444	**5,981**

In absolute figures, statutory equity capital among life insurers increased steadily over the past three years. Comparing with the balance sheet total, the equity capital share in particular has also improved. The industry has accordingly achieved better capitalisation over the last three years. The annual results have increased steadily over the past three years.

Among non-life insurers, the equity capital share in the balance sheet total is higher than among life insurers, since higher volatilities arise from potential major claim events.

[11] Without branches of foreign companies
[12] Without health insurance schemes
[13] These include policy loans and insurance benefits paid in advance, time deposits and similar capital investments, claims on deposits arising from reinsured policies, and other capital investments

1.5.5 Solvency I [14]

(Figures in % or CHF million)	Life insurers			Non-life insurers		
	2005	2006	**2007**	2005	2006	**2007**
Available solvency margin	27,736	28,602	**27,501**	24,081	25,853	**23,553**
-Required solvency margin	-11,291	-11,409	**-11,461**	-7,591	-7,805	**-8,546**
Surplus	16,445	17,193	**16,040**	16,490	18,048	**15,007**
Solvency ratio [15]	245.65%	250.70%	**239.95%**	317.23%	331.24%	**275.60%**

Among life insurers, the legal obligation to cover the required solvency margin is more than fulfilled. The declining available solvency margin in 2007 is due in part to the decreasing stock exchange prices and therefore lower unrealised gains on equity investments allowable toward the available solvency margin, and also due to the fact that the unrealised gains on fixed-interest securities in the case of investments after 1 January 2006 are no longer allowable (and in the case of investments made before that date, only partially).

Among non-life insurers, capital resources are traditionally higher than among life insurers. In addition to the factors mentioned in relation to life insurers, which have led to a reduction of the available solvency margin, various special items apply in the case of non-life insurers as well, such as capital restructuring at one major insurer.

It should be noted in this regard that no longer all available own funds elements are included in the available solvency margin. The insurance companies namely have the option, under certain conditions, to apply for additional elements to be allowed.

1.5.6 Gross premiums earned

(Figures in CHF million)	Direct life insurance [16]			Direct non-life insurance [16,17]		
	2005	2006	**2007**	2005	2006	**2007**
Gross premiums earned	36,024	34,272	**35,702**	47,491	49,014	**47,000**

After a striking reduction of the gross premiums earned in the 2006 business year in the direct life insurance business, a significant increase was recorded again in 2007.

In the direct non-life insurance business, in contrast, the gross premiums earned declined overall and also were nominally – in Swiss francs – below their value in the year 2005. Many factors indicate that the tighter competition among suppliers contributed to the lower premium receipts.

[14] Without branches of foreign companies and without health insurance schemes
[15] Available solvency margin in % of required solvency margin
[16] Incl. branches of foreign companies
[17] Incl. health insurance schemes

1.5.7 Other key figures for life and non-life insurers

Non-life insurers [18, 19]	2005	2006	**2007**
Claims ratio (gross)	74.72%	63.29%	**67.07%**
Cost ratio	22.69%	23.81%	**25.17%**
Combined ratio	97.41%	87.10%	**92.24%**

The figures mentioned above contain direct and indirect non-life insurance business, without active life reinsurance, that may also be offered by non-life insurers.

The higher combined ratio in 2007 is mainly due to the fact that the claims provisions in general increased relative to the previous year (see also the comment on the technical provisions of non-life insurers) and that the premium receipts declined at the same time.

The operating costs increased relative to the previous year in absolute figures, which – in light of the sinking premiums – led to a relative increase of the cost ratio.

The combined ratio and even more so the cost ratio allow conclusions to be drawn concerning the earning power of the industry. In general, a combined ratio of 92.24% in a year with relatively few major claims can be considered relatively good.

Life insurers [18]	2005	2006	**2007**
Cost ratio gross	11.43%	11.34%	11.12%

The cost ratio includes all premium and cost elements of the direct and indirect life and non-life insurance business of life insurers.
The cost ratio trend has been decreasing, and the earning power from operational business has thus steadily increased over the past three years.

1.6 SST ratios (SST Field Test 2007)

	2007	**2007**	2006	2006
	Participants	**SST ratio<100%**	Participants	SST ratio<100%
Life Insurers	**14**	**3**	15	8
Non-life insurers	**29**	**1**	17	0
Health insurers	**13**	**0**	12	0
Total	**56**	**4**	44	8

[18] Without branches of foreign companies
[19] Without health insurance schemes

The solvency situation of the supervised undertakings improved significantly between 2006 and 2007. While 8 insurance undertakings out of 44 (18%) recorded an SST ratio of less than 100% in the field tests in 2006, i.e. their required capital was lower than their target capital, only 4 out of 56 insurance undertakings (7%) had an SST ratio of less than 100% with respect to the SST target capital in 2007. This improvement is on the one hand due to the increase in interest rates between 2006 and 2007, which had a positive effect on life insurers. On the other hand, targeted measures taken by FOPI and the undertakings on the basis of the evaluation of the SST 2006 also led to an improvement of the cover ratio of individual undertakings.

Non-life insurers, who already had a comfortable capital cover overall in 2006, were able to increase their SST ratio again. Life insurers were able to improve it a bit more.

As part of the SST, a certain number of market risk scenarios and stress tests are evaluated among all companies. The scenarios are seven selected historical scenarios. For the stress tests, the focus is on two extreme scenarios relating to the interest rate and stock market development.

Among non-life insurers, none of the scenarios and non of the stress tests in 2007 led any of the insurance undertakings to fail to achieve their SST ratio of 100%, which is in particular due to the comfortable capitalisation of all of the non-life insurers. Among life insurers, five of the seven scenarios and both stress tests led the overall market to fail to achieve the target capital. This is due to the fact that the capitalisation of life insurers is less comfortable than of non-life insurers as well as the fact that the capital resources of life insurers are more heavily dependent on market risk factors and especially interest rates than those of non-life insurers.

Both non-life insurers and life insurers record a low average equity share of 7% and 5%, respectively. This prudence is in part due to the dramatic events in 2001 and 2002. On the other hand, the regular performance of a risk-based solvency test like the SST has likely contributed to raising the awareness of the companies with respect to the risks of an overly high equity share.

Overall, the 2007 Field Test confirms the earlier findings:

- The capital requirements of life insurers are characterised by the market risk – especially the interest rate risk.
- Among non-life insurers, both the market risk and the technical risk are relevant.
- The credit risk is of lesser importance both for life insurers and non-life insurers.
- The risk profile of the insurance undertakings is thus significantly different from the risk profile of banks.

2. Insurance groups and conglomerates supervised in Switzerland (group supervision)

2.1 General remarks

The Insurance Supervision Act (ISA) distinguishes insurance groups and insurance conglomerates. According to article 64 ISA, an insurance group is formed by two or more undertakings where

- at least one of these undertakings is an insurance undertaking,
- as a whole, they are mainly involved in the insurance business, and
- they constitute an economic unit or are otherwise connected with each other through influence or control.

Such a group may be placed under supervision if at least one of these undertakings is domiciled in Switzerland and the group is actually directed from Switzerland. A group directed from abroad may also be placed under group supervision if it has a Swiss subsidiary and there is no adequate supervision abroad.

Since group supervision does not entail substantial added value in every case, FOPI applies the criteria of the internationality and complexity of the group when evaluating placement under supervision.

According to article 72 ISA, an insurance conglomerate is formed by two or more undertakings where

- at least one of these undertakings is an insurance undertaking,
- at least one of the undertakings is a bank or securities dealer of substantial economic importance,
- as a whole, they are mainly involved in the insurance business, and
- they constitute an economic unit or are otherwise connected with each other through influence or control.

In addition to the preconditions for placement described above for group supervision, placement under conglomerate supervision also considers the criterion of substantial business within the financial sector.

The following groups and conglomerates were subject to group and/or conglomerate supervision in 2007:

- Bâloise (group and conglomerate supervision)
- Helvetia (group supervision)
- Mobiliar (group supervision)
- Nationale Suisse (group supervision)
- Paris Re (group supervision)
- Swiss Life (group and conglomerate supervision)
- Swiss Re (group and conglomerate supervision)
- Vaudoise (group supervision)
- Zurich Financial Services (group and conglomerate supervision)

Some of the supervised insurance groups and conglomerates underwent changes in 2007. With the purchase of Winterthur Versicherung by AXA Assurances in 2006, supervision of the Winterthur Group was transferred to the French insurance supervisory authority. FOPI now only supervises its individual companies in Switzerland.

Due to the transfer of its group registered office from Bermuda to Switzerland, Paris Re is now subject to Swiss group supervision.

In addition, due to the sale of Banca del Gottardo and its liquidation, the reason for the additional placement of Swiss Life under conglomerate supervision has become obsolete, so that Swiss Life will now only be subject to group supervision.

For the sake of completeness, it should be mentioned that, due to the takeover of Converium Holding AG by the French Scor Group, the Converium Group is no longer directed from Switzerland. An essential precondition for placement under Swiss group supervision therefore no longer applies.

2.2 Accounting standards used

The figures reported by the insurance groups and conglomerates are mainly based on the audited, consolidated annual reports of the individual groups and conglomerates. These reports differ not only with respect to the accounting standards used (IFRS, US GAAP and Swiss GAAP FER), but also with respect to the legally permissible structure of the annual accounts.

Groups	Standard
Bâloise	IFRS
Helvetia	IFRS
Mobiliar	Swiss GAAP FER
National	Swiss GAAP FER
Paris Re	IFRS
Swiss Life	IFRS
Swiss Re	US GAAP
Vaudoise	Swiss GAP FER
ZFS	IFRS

A summary overview of the key figures for all groups and conglomerates would therefore be of only limited use, which is why the key figures are listed in the following tables for each group or conglomerate.

In addition, different regulatory requirements apply, both by country and also by business segment, which also may have a strong influence on the profile of the key financial figures of an insurance group or conglomerate. For these reasons, direct comparisons between groups/conglomerates should be viewed in context. However, Changes over time to the key figures to the individual groups and conglomerates illustrate a more meaningful picture.

Since Paris Re has only been subject to Swiss group supervision since 8 May 2008, only the figures for 2007 are shown.

2.3 Solvency I and SST outlook

As in individual supervision, verification of capital resources by group-wide supervision is an essential element of the assessment of solvency. The requirements for calculating Solvency I in the insurance segment are closely

based on the requirements for Swiss individual supervision and the respective EU directives. In the case of insurance conglomerates, the rules of the financial segment also apply. The sum of the requirements in the insurance and financial segments are compared with the available and allowable own funds of the overall enterprise.

All nine of the groups and conglomerates subject to supervision meet the prescribed minimum requirements of Solvency I of 100%. The solvency ratios fell within the following ratios at the end of 2007:

Solvency ratio	< 150%	150% - 200%	> 200%
Number of groups/congl.	0	4	5

This key figure only insufficiently takes the risk profile of the individual groups and conglomerates into account. Based on the new regulatory requirements, the insurance groups and conglomerates are undertaking to develop group-wide risk-based models (internal models) in accordance with the Swiss Solvency Test SST (Solvency II) and to verify their meaningfulness by way of field tests. For a risk-based perspective, the risks of the banking segment (Basel II) must be taken into account in addition to the risks for the insurance segment in the case of conglomerates. The total required own funds (target capital) are compared with the allowable own funds (risk-bearing capital) of the group or conglomerates. Beginning in 2008, performance of the SST is mandatory for groups and conglomerates, and the resulting capital requirements must be fulfilled by 2011.

2.4 Overview of selected key figures

Groups				
	(Figures in CHF million)	2005	2006	**2007**
	Balance sheet total			
Bâloise		61,315	64,033	**66,996**
Helvetia		30,645	31,810	**32,545**
Mobiliar		12,856	13,384	**13,615**
National		7,052	7,304	**7,410**
Paris Re				**7,714**
Swiss Life		177,597	186,950	**179,757**
Swiss Re		221,299	291,300	**307,287**
Vaudoise		6,936	8,035	**8,964**
ZFS		446,046	456,858	**441,321**
	Reported equity capital			
Bâloise		4,391	4,987	**4,866**
Helvetia		2,481	2,738	**2,851**
Mobiliar		2,201	2,524	**2,746**
National		559	650	**592**
Paris Re				**2,780**
Swiss Life		7,953	7,851	**7,334**
Swiss Re		24,393	30,884	**31,867**
Vaudoise		390	443	**531**
ZFS		30,523	31,822	**33,072**
	Reported annual result			
Bâloise		404	707	**814**
Helvetia		302	424	**402**
Mobiliar		272	309	**341**
National		24	64	**88**
Paris Re				**98**
Swiss Life		874	954	**1,368**
Swiss Re		2,304	4,560	**4,162**
Vaudoise		44	45	**88**
ZFS		3,998	5,789	**6,745**
	Combined ratio (in %) [20]			
Bâloise		100.0%	94.0%	**95.1%**
Helvetia		94.0%	94.1%	**94.5%**
Mobiliar		101.0%	91.3%	**94.6%**
National		103.0%	99.0%	**101.9%**
Paris Re				**90.8%**
Swiss Life		101.9%	102.2%	**99.7%**
Swiss Re		114.1%	90.5%	**90.2%**
Vaudoise		105.0%	103.3%	**93.4%**
ZFS		100.8%	93.9%	**95.6%**
	Gross premiums earned			
Bâloise		6,835	6,707	**6,880**
Helvetia		5,182	5,227	**5,449**
Mobiliar		2,599	2,686	**2,737**
National		1,725	1,725	**1,856**
Paris Re				**1,585**
Swiss Life		14,146	12,892	**13,951**
Swiss Re		29,321	32,605	**34,624**
Vaudoise		1,983	1,872	**1,818**
ZFS		58,212	58,195	**56,913**

[20] Net figures

The table shows the most important key figures of the groups and conglomerates subject to Swiss supervision using a three-year comparison.

One measure for evaluating the size of a group or conglomerate and therefore its importance for the Swiss financial industry is the balance sheet total. In 2007, Swiss Re and ZFS reported a balance sheet total of more than CHF 300 billion. These two major groups have a worldwide network of subsidiaries, branches, and representations. The other groups are generally restricted to Continental Europe or Switzerland, with the exception of Paris Re, which also operates its reinsurance business worldwide.

The financial segment of the Swiss conglomerates has not grown in the last three years (banks, securities dealers, and companies affiliated with this segment). The share of the financial segment did not break the 10% threshold in any of the conglomerates.

The individual key figures will be discussed in more detail below.

2.5 Trends and developments in a three-year comparison

2.5.1 Technical provisions

Groups				
	(Figures in CHF million)	2005	2006	**2007**
	Technical provisions in non-life insurance, gross			
Bâloise		5,758	5,911	**6,150**
Helvetia		3,500	3,638	**3,823**
Mobiliar		4,525	4,613	**4,754**
National		2,048	2,099	**1,897**
Paris Re				**4,474**
Swiss Life		1,583	1,633	**1,427**
Swiss Re		59,104	80,391	**73,171**
Vaudoise		1,913	1988	**2,011**
ZFS		90,229	91,234	**90,603**
	Technical provisions in life insurance, gross			
Bâloise		39,158	40,611	**41,662**
Helvetia		20,971	21,900	**22,557**
Mobiliar		5,719	5,575	**5,489**
National		4,007	4,040	**4,283**
Paris Re				**0**
Swiss Life		137,669	152,167	**144,479**
Swiss Re		77,851	102,353	**106,723**
Vaudoise		4,269	5,155	**5,953**
ZFS		160,256	168,950	**165,600**

The table shows the development of the technical provisions in non-life and life insurance. When evaluating the technical provisions at the level of the group or conglomerate, it should be noted that the table shows a sum of the provisions of the individual companies, which in turn must take account of the (regulatory) requirements of each segment and country.

2.5.2 Key figures on investment transactions

Groups				
	(Figures in CHF million)	2005	2006	**2007**
	Capital investments			
Bâloise		56,601	59,532	**61,948**
Helvetia		27,783	28,928	**29,382**
Mobiliar		12,186	12,797	**12,968**
National		6,359	6,493	**6,290**
Paris Re				**6,301**
Swiss Life		165,914	175,821	**167,853**
Swiss Re		130,601	204,238	**227,812**
Vaudoise		6,662	7,725	**8,623**
ZFS		364,197	377,894	**357,838**
	Investment earnings			
Bâloise		2,654	2,591	**1,730**
Helvetia		1,302	1,109	**1,040**
Mobiliar		580	426	**358**
National		275	246	**321**
Paris Re				**253**
Swiss Life		7,059	6,682	**6,532**
Swiss Re		6,137	7,991	**10,692**
Vaudoise		347	283	**282**
ZFS		30,401	25,626	**19,531**
	Return on capital investments (in %)			
Bâloise		4.7%	4.4%	**2.8%**
Helvetia		4.7%	3.8%	**3.5%**
Mobiliar		4.8%	3.3%	**2.8%**
National		4.3%	3.8%	**5.1%**
Paris Re				**4.0%**
Swiss Life		4.3%	3.8%	**3.9%**
Swiss Re		4.7%	3.9%	**4.7%**
Vaudoise		5.2%	3.7%	**3.3%**
ZFS		8.3%	6.8%	**5.5%**

The earnings on capital investments reported by the groups and conglomerates in their business reports may differ with respect to content and form. Differences exist in the treatment of exchange rates, for instance, as well as unrealised gains and losses. A comparison among the groups and conglomerates is thus difficult to perform.
Due to the development on the financial markets, most of the groups and conglomerates reported a decline of their investment results relative to the previous year. The exception was Swiss Re, which still reported an increase of capital investments and a clear improvement of investment earnings in 2007, as well as Nationale Suisse, which reported a significantly increased return.

The returns on capital investments shown here are calculated by dividing the capital earnings by the capital investments held at the end of the year. This simple key figure is a good indicator of the financial success of the earnings generated in relation to the portfolio at the end of the year.

Groups				
	Capital investment mix (in %)	2005	2006	**2007**
	Real estate and buildings			
Bâloise		9.9%	8.9%	**8.5%**
Helvetia		14.0%	13.4%	**13.5%**
Mobiliar		7.5%	7.5%	**7.8%**
National		24.7%	24.9%	**25.8%**
Paris Re				**0.0%**
Swiss Life		6.9%	6.7%	**7.4%**
Swiss Re		1.3%	2.1%	**1.2%**
Vaudoise		11.5%	10.1%	**9.8%**
ZFS		4.6%	4.9%	**4.9%**
	Holdings			
Bâloise		0.3%	0.3%	**0.3%**
Helvetia		0.2%	0.2%	**0.2%**
Mobiliar		0.7%	0.7%	**0.7%**
National		0.3%	0.3%	**0.8%**
Paris Re				**0.1%**
Swiss Life		0.0%	0.0%	**0.0%**
Swiss Re		0.0%	0.0%	**0.0%**
Vaudoise		0.2%	0.2%	**0.2%**
ZFS		0.2%	0.0%	**0.1%**
	Equity, other non-fixed-interest securities and fund units			
Bâloise		13.6%	14.6%	**16.1%**
Helvetia		13.4%	14.2%	**14.5%**
Mobiliar		29.2%	26.6%	**28.5%**
National		11.3%	12.1%	**13.6%**
Paris Re				**8.4%**
Swiss Life		9.0%	10.0%	**12.2%**
Swiss Re		15.0%	16.3%	**14.4%**
Vaudoise		29.9%	37.7%	**45.6%**
ZFS		32.6%	35.2%	**37.6%**
	Fixed-interest investments			
Bâloise		37.9%	41.2%	**39.2%**
Helvetia		51.0%	50.9%	**52.1%**
Mobiliar		47.3%	51.7%	**49.9%**
National		53.0%	53.3%	**54.9%**
Paris Re				**65.8%**
Swiss Life		50.3%	54.0%	**50.4%**
Swiss Re		71.8%	67.5%	**70.1%**
Vaudoise		31.4%	30.2%	**27.9%**
ZFS		45.2%	43.7%	**42.4%**
	Mortgages receivable			
Bâloise		17.4%	16.7%	**16.5%**
Helvetia		10.9%	10.7%	**10.5%**
Mobiliar		3.9%	3.7%	**3.5%**
National		7.1%	6.7%	**2.2%**
Paris Re				**0.0%**
Swiss Life		5.2%	4.7%	**4.7%**
Swiss Re		4.5%	3.2%	**2.7%**
Vaudoise		2.7%	2.2%	**1.8%**
ZFS		3.4%	3.5%	**4.0%**

	Loans and government ledger bonds			
Bâloise		13.8%	13.2%	**13.2%**
Helvetia		7.0%	6.7%	**6.6%**
Mobiliar		3.9%	4.1%	**4.4%**
National		0.1%	0.1%	**0.1%**
Paris Re				**0.1%**
Swiss Life		13.1%	11.7%	**11.2%**
Swiss Re		1.1%	0.8%	**0.6%**
Vaudoise		17.8%	14.7%	**12.6%**
ZFS		4.3%	4.1%	**4.1%**
	Other capital investments			
Bâloise		7.2%	5.1%	**6.2%**
Helvetia		3.6%	3.8%	**2.5%**
Mobiliar		7.4%	5.8%	**5.2%**
National		3.6%	2.5%	**2.6%**
Paris Re				**25.6%**
Swiss Life		15.5%	12.9%	**14.1%**
Swiss Re		6.3%	10.2%	**11.1%**
Vaudoise		6.6%	5.0%	**2.1%**
ZFS		9.8%	8.6%	**6.9%**

The distribution of the capital investments among the most important investment categories at the end of 2007 did not differ significantly from the previous year.

The bulk of the groups and conglomerates continue to invest primarily in fixed-interest investments. Another important category consists in equity as well as fund units. The table above includes capital investments for which the client bears the risk. These include in particular amounts from unit-linked life insurance and other unit-linked products.

If only securities were included here for which the company bears the risk, the equity share in the investment mix would be between 8% and 20%, most of which accounted for by investment funds.

2.5.3 Key figures on equity capital

Groups				
	(Figures in CHF million)	2005	2006	**2007**
	Reported equity capital			
Bâloise		4,391	4,987	**4,866**
Helvetia		2,481	2,738	**2,851**
Mobiliar		2,201	2,524	**2,746**
National		559	650	**592**
Paris Re				**2,780**
Swiss Life		7,953	7,851	**7,334**
Swiss Re		24,393	30,884	**31,867**
Vaudoise		390	443	**531**
ZFS		30,523	31,822	**33,072**

	Share of equity in balance sheet total (in %)			
Bâloise		7.2%	7.8%	**7.3%**
Helvetia		8.1%	8.6%	**8.8%**
Mobiliar		17.1%	18.9%	**20.2%**
National		7.9%	8.9%	**8.0%**
Paris Re				**36.0%**
Swiss Life		4.5%	4.2%	**4.1%**
Swiss Re		11.0%	10.6%	**10.4%**
Vaudoise		5.6%	5.5%	**5.9%**
ZFS		6.8%	7.0%	**7.5%**
	Reported annual result			
Bâloise		404	707	**814**
Helvetia		302	424	**402**
Mobiliar		272	309	**341**
National		24	64	**88**
Paris Re				**98**
Swiss Life		874	954	**1,368**
Swiss Re		2,304	4,560	**4,162**
Vaudoise		44	45	**88**
ZFS		3,998	5,789	**6,745**
	Return on reported equity (ROE) (in %)			
Bâloise		9.2%	14.2%	**16.7%**
Helvetia		12.2%	15.5%	**14.1%**
Mobiliar		12.4%	12.2%	**12.4%**
National		4.3%	9.8%	**14.9%**
Paris Re				**3.5%**
Swiss Life		11.0%	12.2%	**18.7%**
Swiss Re		9.4%	14.8%	**13.1%**
Vaudoise		11.3%	10.2%	**16.6%**
ZFS		13.1%	18.2%	**20.4%**

The Swiss groups and conglomerates all reported positive annual results for 2007. Most of them were able to improve on their previous year's results.

The share of equity capital in the balance sheet total provides an important indication for evaluating the level of self-financing over time. A wide spectrum can be seen in this regard, which depends both on the type of the insurance business (share of life insurance, non-life insurance and reinsurance) and on the size of the group or conglomerate, the reserve policy, and the legal structure.

Another key figure is the return on equity. The figures in the table above are calculated on the basis of the final annual result, i.e. the annual profit in percentage of equity capital as of 31 December 2007. Not taking special items into account, the return on equity of Paris Re would be around 13.3%.

Groups				
		2005	2006	**2007**
	Claims ratio (in %)[21]			
Bâloise		68.3%	61.6%	**61.6%**
Helvetia		62.1%	61.5%	**61.6%**
Mobiliar		74.9%	65.2%	**67.3%**
National		73.1%	68.3%	**69.7%**
Paris Re				**61.4%**
Swiss Life		73.7%	74.7%	**73.1%**
Swiss Re		89.3%	63.2%	**62.2%**
Vaudoise		75.1%	73.9%	**64.8%**
ZFS		76.4%	70.1%	**70.5%**
	Cost ratio (in %) [21]			
Bâloise		31.3%	31.6%	**33.0%**
Helvetia		31.9%	32.6%	**32.9%**
Mobiliar		24.6%	24.4%	**25.7%**
National		29.8%	30.6%	**32.2%**
Paris Re				**29.4%**
Swiss Life		28.1%	27.4%	**26.6%**
Swiss Re		24.8%	27.3%	**28.0%**
Vaudoise		29.9%	29.4%	**28.6%**
ZFS		24.4%	23.8%	**25.1%**
	Combined ratio (in %) [21]			
Bâloise		100.0%	94.0%	**95.1%**
Helvetia		94.0%	94.1%	**94.5%**
Mobiliar		101.0%	91.3%	**94.6%**
National		103.0%	99.0%	**101.9%**
Paris Re				**90.8%**
Swiss Life		101.9%	102.2%	**99.7%**
Swiss Re		114.1%	90.5%	**90.2%**
Vaudoise		105.0%	103.3%	**93.4%**
ZFS		100.8%	93.9%	**95.6%**

Despite some natural events in the reporting year such as the Kyrill winter storm and floods in Europe, the financial effects were limited, so that claims ratios remained at a fairly low level.

In addition to improvements in cost management, the cost ratio especially reflects the higher acquisition and project costs, as well as restructuring costs in larger groups and conglomerates.

[21] Net figures

2.5.4 Gross premiums earned

Groups				
	(Figures in CHF million)	2005	2006	**2007**
	Gross premiums earned in non-life insurance			
Bâloise		3,051	3,055	**3,202**
Helvetia		2,389	2,396	**2,554**
Mobiliar		1,944	2,009	**2,048**
National		1,192	1,218	**1,227**
Paris Re				**1,585**
Swiss Life		909	570	**572**
Swiss Re		18,206	19,895	**20,375**
Vaudoise		627	686	**684**
ZFS		41,549	42,759	**42,739**
	Gross premiums earned in life insurance			
Bâloise		3,784	3,651	**3,678**
Helvetia		2,794	2,832	**2,895**
Mobiliar		655	677	**689**
National		532	507	**629**
Paris Re				**0**
Swiss Life		13,237	12,322	**13,379**
Swiss Re		11,115	12,710	**14,249**
Vaudoise		1,355	1,186	**1,133**
ZFS		13,105	12,849	**11,557**

Despite the emerging increase in price competition in the non-life insurance sector, the business volume (gross premiums) remained relatively constant. Significant differences by country can be observed.

In the life insurance sector, it can be seen that traditional life insurance products in individual life are under substantial pressure due to the current situation on the financial markets. A clear increase continues to be seen in unit-linked life insurance.

3. Annexes on individual supervision

Annex I: Supervised insurance undertakings

Type of insurance undertaking	Insurance undertakings domiciled in Switzerland	Branches of foreign insurance undertakings	Total
	31.12.07	**31.12.07**	**31.12.07**
Non-life insurers	78	39	**117**
Life insurers	22	4	**26**
Reinsurers	25		**25**
Captives	46		**46**
Subtotal	**171**	**43**	**214**
Health insurance schemes offering supplementary health insurance	46		46
Total supervised insurance undertakings and health insurance schemes	**217**	**43**	**260**

Annex II: Definitions

Claims ratio
Expenses for claims (gross) in relation to gross premiums earned

Cost ratio
Expenses for insurance operations on own account and expenses for the administration of capital investment in relation to gross premiums earned

Combined ratio
Claims ratio plus cost ratio

Swiss business
Business generated in Switzerland

Return on capital investments
Investment earnings in % of average investment portfolio ((year-beginning portfolio + year-end portfolio)/2)

Return on reported equity
Annual result in % of average equity capital ((year-beginning portfolio + year-end portfolio)/2)

PA
Abbreviation of profit appropriation

ISA
Federal Law of 17 December 2004 on the Supervision of Insurance Undertakings (Insurance Supervision Act)