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Valuable synergies between national and international regulatory and supervisory activities in the insurance industry

Developments over the last two years have clearly demonstrated how closely the international financial markets are linked to each other – both in good times and in bad. Things which in good times appear to be golden opportunities to foster global and multi-local business turn out in bad times to be a platform for spreading risks across numerous countries and continents. This, in turn, has prompted financial market regulation to take on a more international perspective. On the one hand, this involves taking an active role in shaping regulatory activities and giving them a stronger international dimension. On the other, it means keeping pace with international developments and – where appropriate – taking up international initiatives and implementing them in one's own country. It can also be important to ensure that domestic regulation is recognised abroad, and vice-versa. Last but not least, regulatory work includes promoting cooperation between supervisory authorities in their day-to-day supervisory activities.

Integrated insurance supervision

This integrated approach can be neatly illustrated by looking at the activities undertaken in the insurance industry in 2008. It should be made clear from the outset that the Federal Office of Private Insurance (FOPI) operates in accordance with the concept of integrated insurance supervision, which was developed on the basis of the Insurance Supervision Act (ISA) that came into force in 2006. This focuses on quantitative, qualitative and traditional elements. The quantitative element is represented in particular by the economic and risk-based Swiss Solvency Test (SST) capital model, which is currently in the process of being implemented and is due to be introduced in full in 2011. The qualitative elements include a focus on corporate governance and risk management as well as the requirements placed on other processes such as auditing and investments. Finally, the traditional elements relate to key financial figures available only at short notice, such as Solvency I or the requirements in respect of technical provisions and tied assets.

The concept of integrated insurance supervision also includes integration at the international level, especially with regard to spreading awareness of the Swiss system of insurance supervision and striving to have it recognised by selected foreign supervisory bodies. The FOPI again promoted this objective intensively in various international committees and associations in 2008. Two examples of

this international network are the International Association of Insurance Supervisors (IAIS) and the so-called Regulatory Dialogues.

International Association of Insurance Supervisors (IAIS)

The central forum for the insurance industry at international level is the International Association of Insurance Supervisors (IAIS), which – like the Basel Committee on Banking Supervision – is regarded as the standard setter in its field and counts around 140 member states and some 190 jurisdictions among its members. We have succeeded in successfully positioning the economic and risk-based SST capital model in the IAIS. Indeed, in the last few months the Swiss method of recording insurance groups was incorporated into an IAIS guidance paper on the solvency of insurance groups. Switzerland also made a decisive contribution in the area of corporate governance in the form of a fundamental study conducted jointly with the OECD. In terms of group supervision, Switzerland has an extremely far-reaching legal basis compared with other countries – one which it actively exploited last year, not least by holding the first worldwide Supervisory Colleges for Swiss Re Group and Zurich Financial Services Group, which saw the key global regulators for these groups come together to share their knowledge and experience. These information platforms are set to be developed into actual supervisory bodies and, where necessary, will serve as crisis management mechanisms to be deployed in the group's relevant countries of activity.

Switzerland is also represented in some of the IAIS's most important committees. With Monica Mächler's election to the Executive Committee and as Vice-Chair of the Technical Committee, we now have the opportunity to play a vital role in shaping the course of future strategic development and standard setting within the IAIS.

Via its involvement in the IAIS, Switzerland also helped to draft the preliminary submissions to the G20 Summit in London on 2 April 2009. The submissions are largely convergent with the positions held by Switzerland to date, but the call for regulation of previously unregulated activities, particularly with regard to the capital markets and the macroprudential assessment of regulatory activities, represents additional progress for Switzerland as well. FOPI also appointed one IAIS representative – now several following the launch of FINMA – to the Joint Forum, the working group of the three international standard-setters. Switzerland hopes to use its newly integrated financial market supervisory system to gain significant insights from a new working process to define the different regulatory approaches for banks, insurance companies, securities dealers and other financial market participants.

Regulatory Dialogues, bilateral and multilateral contacts

The focus here is on the Regulatory Dialogues, which have been held at least twice a year since 2007. Probably the most important of these is the Regulatory Dialogue with the European Commission, which deals in particular with issues relating to the economic capital model, qualitative supervision and group supervision. The European Commission is very interested in the experience gathered by Switzerland in this area, but it is still working on the legislative process for a Solvency II Directive and is therefore not yet in the implementation phase. The aim of this dialogue is to lay the foundation for the procedure governing mutual recognition of Swiss and European insurance regulation and supervision. We believe that we have already cleared much of the ground for this. The Regulatory Dialogue with the US National Association of Insurance Commissioners (NAIC) takes the form more of

an exchange of ideas between systems that have not developed commensurately in many areas. The supervisory authorities of individual US states are very interested in our experiences with the Supervisory Colleges.

Valuable contacts have also been made at bilateral and multilateral level. A prime example is the constructive dialogue that has been established with the top German insurance supervisory bodies. Good contacts have also been forged with the supervisory authorities of other European countries as well as countries in Asia, Latin America, Africa and Australia. On a multilateral level, we are also working with the OECD Insurance and Private Pensions Committee and exchanging experiences with the other German and French-speaking supervisory authorities in Europe. This network of contacts not only makes it easier to keep a constant eye on regulation, but also enables us to develop an efficient system of cross-border supervision. Without this network, we would not have been able to attract such a wide range of regulators from all over the world to take part in the Supervisory Colleges for Swiss Re Group and Zurich Financial Services Group. We need to redouble our efforts in this area in order to create an efficient supervisory mechanism for an entire group. Contacts with individual foreign supervisory authorities facilitate the task of supervising the cross-border activities of Swiss insurance companies abroad as well as those of foreign insurance companies in Switzerland.

With this in mind, the FOPI has built up an extremely intensive and inspiring dialogue with international institutions and supervisory authorities that is now being continued by FINMA. Time and time again we see how representatives from even small countries can bring professional solutions to the table and obtain the support of the majority. At the same time, Switzerland also gleans many valuable ideas from this exchange.