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Annual report

2006

On the path to integrated supervision

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Federal Department of Finance FDF
Federal Office of Private Insurance FOPI

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Index

Introduction
On the path to integrated supervision 4

Cornerstones of Swiss insurance supervision
FOPI in brief 7

Modern supervisory instruments 8

Swiss Solvency Test:
Field tests in 2006 and future challenges 9

Swiss Quality Assessment 11

Other legislative projects
Further implementation of supervision law 13

Revision of the Ordinance
on Combating Money Laundering 16

Total revision of the ICA 17

Insurance supervision and FINMA 18

International developments 19

Supervision activities
Organisation of supervision
Supervision of individual undertakings
and of insurance groups and conglomerates 22

Non-life insurance: Higher coverage
limits for natural forces insurance 25

Reinsurance: Consolidation trend
in the reinsurance market 26

Life insurance: Implementation of transparency
requirements for occupational pensions 27

Health insurance: Supervision activities
and economic development 30

Supervision of intermediaries:
Professional register established –
material supervision operational 32

Market overview
Insurance companies
domiciled in Switzerland 34

Insurance groups and conglomerates
directed from Switzerland 46

FOPI Annual Report 2006

On the path to integrated supervision

Introduction by Monica Mächler, Director of FOPI

Modern insurance supervision is operational

The year 2006 was marked by the entry into force of the new Swiss Insurance Supervision Act, ISA. With the ISA, modern insurance supervision law has become operational in Switzerland, following paths in many areas that, while considered desirable both at home and internationally, have so far only been implemented in part in other countries. Modern Swiss insurance supervision includes, in particular, a focus on risk-based insurance supervision, which is implemented with new instruments such as the Swiss Solvency Test (SST) and the Swiss Quality Assessment currently under development, but also traditional supervision instruments. The further expanded resources of international co-operation open up additional perspectives.

Dynamic environment

Switzerland is thus pursuing a path that is absolutely necessary in light of an environment subject to permanent change, in order to ensure future-oriented insurance supervision that protects the interests of insured parties for the long run. Highly competitive international trends are also having an impact in Switzerland: The acquisition of the American company General Electric Insurance Solutions (GEIS) by Swiss Re, the takeover of the Winterthur Group by the French AXA Group, and the recent takeover bid by the French SCOR Group for Converium Holding AG impressively demonstrate both sides of the unfolding dynamics and the important role of Swiss players in this regard.

Insurance supervision in Switzerland

The Federal Office of Private Insurance (FOPI) is responsible for insurance supervision in Switzerland, with the goal of protecting insured parties from the insolvency risks of insurance undertakings and from abuse. This legislative mandate is implemented by way of a forward-looking, competent, and professional approach that is committed to independent decision-making and proper judgment. Since 1 January 2006, a set of modern supervision instruments has been available for this purpose. All FOPI staff members are committed to supervisory integrity on the basis of an internal code of conduct.

Integrated supervision as the next milestone

The new supervision law, introduced with the Swiss Solvency Test, SST, was initiated and substantially shaped by Herbert Lüthy, who resigned as the Director of the Federal Office of Private Insurance as of the end of 2006. The SST will now be consolidated along with instruments of qualitative supervision under development and traditional means of supervision into a modern, integrated overall concept that is oriented according to the challenges of the insurance industrysector and at the same time strengthens the protection of insured parties. The concept of integrated supervision also serves to optimise the management of the internal interfaces between the various instruments and thereby to improve the efficiency and effectiveness of FOPI.

The new path adopted with the entry into force of the new ISA not only enhances the requirements that must be met by the insurance industry with respect to risk-awareness and transparency, but also increases the demands placed on integrated insurance supervision in a way that an authority the size of FOPI can only meet with additional, targeted measures. The tight financial and staffing resources of FOPI therefore necessitate an efficient transfer of know-how and the use of highly qualified staff members. With the staff increase of approximately 30 positions approved by Parliament at the end of 2005, FOPI is now in a first phase better equipped to undertake implementation of the demanding new ISA. Against the background of a dynamically changing environment, however, the resource-related possibilities are limited. In light of the multitude of new responsibilities and due to the continuation of time-consuming activities such as preventive product inspections in the area of supplementary health insurance and collective life insurance, additional measures, in particular to increase efficiency, are therefore required.

New transparency provisions prove effective
The new ISA has also met important concerns relating to transparency and therefore of consumer protection. In addition to an improvement of transparency in the individual classes of insurance and an expansion of the information requirements of insurers, an important development has been the placement of insurance intermediaries under supervision. As of 31 March 2007, 11,450 intermediaries were already registered.
Furthermore, Swiss private life insurers presented a complete accounting statement for occupational pension plans for the first time in 2005. FOPI published an overview in this area at the end of 2006 as well as the FOPI figures of the individual insurance undertakings. This disclosure is a result of the transparency requirements of the first Occupational Pension Act revision, which already entered into force on 1 April 2004.
It is encouraging that the mechanisms introduced with the new transparency requirements have now begun to take hold. The IT investments associated with the introduction of transparent accounting have been completed, and increased competition is seen to be emerging. Various requests for premium reductions for 2007 as well as already for 2008 have been approved or are currently being reviewed by FOPI.

International cooperation
With the development of a risk-based supervision philosophy, Switzerland is well-positioned to implement the legislative mandate to supervise insurance groups and conglomerates directed from Switzerland. At the international level, specific cooperation protocols for the interaction between domestic and international supervisory authorities must be developed for this purpose, in addition to the memoranda of understanding created for information exchange. In this way, the preconditions for mutual recognition of supervisory activities are being established.

FINMA: Integration of the financial market supervisory authorities
On 1 February 2006, the Federal Council published its dispatch on the Federal Act concerning the Federal Financial Market Supervisory Authority (FINMA Act). The proposal is now undergoing parliamentary consideration. The FINMA Act envisages an integration of the Swiss Federal Banking Commission, the Federal Office of Private Insurance, and the Anti-Money Laundering Control Authority into a single authority which, as an autonomous establishment under public law, will be named FINMA. From the perspective of FOPI, it is crucial that an appropriate balance is found between the integration of the different authorities and the utilisation of synergies, while taking into account the special features of insurance business.

Outlook
In conclusion, it can be said that Switzerland has a modern set of instruments for insurance supervision at its disposal. To face the dynamic developments in the insurance market adequately, the goal is now to advance the integration of the supervision model in a targeted manner, so that the effectiveness of the regulatory measures can be further enhanced. A precondition for this is prudent cooperation at the national and international level in the area of insurance supervision, but also the willingness of insurance undertakings to prepare themselves consistently and with the requisite risk-awareness and transparency for intensified competition.

Cornerstones of Swiss insurance supervision

FOPI in brief

FOPI in brief
The Federal Office of Private Insurance (FOPI) supervises insurance undertakings that are engaged in non-life insurance, life insurance, and reinsurance, as well as insurance intermediaries. The focus of its supervisory activities is to protect insured parties from the risks of insolvency of the insurance undertakings and from abuses.

FOPI grants business authorisations, performs risk-weighted audits of ongoing business with respect to finances and quality, and, where necessary, intervenes in cases of abuse or takes the necessary protective measures. Moreover, FOPI approves the insurance products for collective life insurance and insurance supplementary to social health insurance and carries out monitoring in this regard.

FOPI also participates in the drafting of legal foundations and international agreements in the area of private insurance. Since 1 July 2003, FOPI has been part of the Swiss Federal Department of Finance (FDF).

Director
Monica Mächler (since 1 January 2007)

General Management
Hans-Peter Gschwind, Deputy Director
Manfred Hüsler, Vice Director
Heinz Schweizer, Vice Director
Philipp Keller, Member of the General Management (until 31 March 2007)
Kurt Schneiter, Member of the General Management (until 31 April 2007)
René Schnieper, Member of the General Management (since 1 April 2007)

Staff
Total staff (31 Dec 06): 89 (1 Jan 06: 74)
Full-time staff (31 Dec 06): 83,4
Resignations 2006: 5

The staff is composed of a broad spectrum of specialists working together in an interdisciplinary manner. These specialists include lawyers, mathematicians/physicists/actuaries, economists, business economists, accounting and investment specialists, humanists, and other experts.

Supervised undertakings (as of 31 Dec 2006)

Type of insurer	Switzerland	Branches of foreign companies	Total
Non-life insurers	78	40	118
Life insurers	23	4	27
Reinsurers	25		25
Captives	45		45
Supplementary health insurance	47		47
Total supervised undertakings	218	44	262
Intermediaries			
Registered intermediaries			10 485

Modern supervisory instruments

With the new Federal Law of 17 December 2004 on the Supervision of Insurance Undertakings (Insurance Supervision Act, ISA), the associated Ordinance of 9 November 2005 on the Supervision of Private Insurance Undertakings (Supervision Ordinance, SO), and the FOPI Ordinance of 9 November 2005 on the Supervision of Private Insurance Undertakings (FOPI Supervision Ordinance, SO-FOPI), which entered into force on 1 January 2006, modern insurance supervision has become a reality in Switzerland.

The focus of the new ISA is to secure the solvency of the supervised insurance undertakings and to protect insured parties from abuse. At the same time, the new law takes the changed market environment into account: In recent years, the legislative power has deliberately pursued a liberalisation of the insurance market, which allows insurance undertakings to assert themselves in an increasingly competitive environment, also internationally.

The new ISA pays particular attention to the associated challenges and the resulting risks. The focus on risk-based supervision aims to manage new insurance and technical risks in a forward-looking manner. In particular, the new law introduces the Swiss Solvency Test (SST) developed by FOPI. The SST serves to ascertain the economic risk exposure and risk capacity of an insurance undertaking and is based on similar principles such as Solvency II – the analogous project of the EU. In contrast to the Solvency II rules, which are only likely to be implemented in EU States as general directives in a few years, the SST and comprehensive risk-based supervision have already been introduced considerably earlier in Switzerland. Along with risk assessment by means of a determination of the economically required capital (SST), supervision aims qualitatively to evaluate corporate governance, risk management, the internal control system, and the other operational risks of an insurance undertaking.

In addition to these newer supervision instruments, several traditional supervision mechanisms apply vis-à-vis the insurance undertakings. In particular, starting from extensive reporting requirements, the tied assets covering the technical obligations must be invested according to special rules. At the same time, certain procedures under company law and portfolio transfers are subject to approval in the framework of ongoing business operations. Authorisation to operate insurance business as such is granted on the basis of business plans that must be updated continuously. If threats to solvency or abuses are identified, FOPI may employ a series of protective measures, which are supplemented by defined rules on the bankruptcy of insurance undertakings as well as specific penal provisions.

While the traditional instruments are based on a normative approach, the instruments designed to capture the risks and the risk capacity rely primarily on a principle-based approach. FOPI is currently engaged in further optimising the interfaces between traditional and risk-based supervision and has launched a project in this regard entitled „Integrated Insurance Supervision".

Swiss Solvency Test: Field tests in 2006 and future challenges

Swiss Solvency Test (SST, Solvency II)
Both in Switzerland and in the EU, it is undisputed that the definitions for calculating solvency in accordance with Solvency I are insufficient. The rigid Solvency I model with its calculation of the required capital based on business volume and fixed formulas is only partially able to capture the actual individual risk exposure and risk capacity of an insurance undertaking.
On the basis of an economic perspective, the SST in contrast captures all relevant and quantifiable risks. Stochastic standard models quantify the risks in question. At the same time, internal models are permitted to reflect the specific risk situation of an undertaking in a meaningful way.
The SST model leads to a determination of the capital requirement, i.e. the target capital. The own funds (risk-bearing capital) available for covering the target capital are also determined on the basis of a market-consistent valuation.

Field tests in 2006

As in the two previous years, an SST field test was conducted in 2006. 15 life insurers, 19 non-life insurers, and 13 health insurers and health insurance schemes took part; participation was mandatory for eight life insurers with a premium volume of over CHF 1 billion (thousand million) and for nine non-life insurers with a premium volume of over CHF 500 million.
The field tests for 2006 showed that the main risk of most life insurers consists in their exposure to changes in the financial and investment markets, the so-called market risk. In contrast, the situation for non-life and health insurers is more heterogeneous: While market risks are also important, specific insurance risks dominate.
In a very small number of cases, the findings from the field tests triggered a need for preventive action; the necessary measures are being overseen by FOPI. The transition period of five years after entry into force of the law constitutes a sufficient period for finding appropriate solutions, which may, for instance, consist in a capital increase, a risk reduction, or a portfolio transfer.

Effects of the SST on insurance undertakings

Since the SST employs an economic perspective for valuation and risk measurement, it will in general not have a significant effect on insurance undertakings, which for their part are managed on the basis of risk-based capital models. In the case of other insurance undertakings, however, it is possible that greater adjustments will be necessary due to the more in-depth risk assessment.
With a view to investment strategies, it is to be expected that the demand for long-term government bonds will increase. A study by the University of St. Gallen in December 2006 shows that growing interest for long-term bonds due to a flat interest-rate structure on the domestic capital market is to be expected. At the same time, the study showed that the requirements of the SST will hardly have an effect on the corporate financing of insurance undertakings, due to their fundamentally solid capitalisation.

Challenges for the SST in the coming years

A central task of FOPI is now the evaluation of the internal risk models of insurance undertakings. In particular, this includes questions of how to model risks within a group of insurance companies. At the same time, an additional field test will also be conducted in the summer of 2007. As in 2006, participation will be voluntary for most insurance undertakings but mandatory for large companies.

Risk valuation of real estate
A current controversial question concerns the valuation of real estate risks within the SST. Some insurance undertakings are of the opinion that such risks would not be evaluated appropriately within the SST. So far, however, no proposals have been presented to FOPI that would constitute an appropriate alternative to the approach used by FOPI. Nevertheless, FOPI continues to be willing to discuss the consideration of other possibilities of real estate risk modelling.

Expected value of the financial result for life insurance undertakings
Based on the experiences of the 2005 field test, FOPI has not allowed the use of the expected financial result for reducing the capital requirements in the standard model for life insurers. The expected financial result may be allowed in the future as long as it is modelled with the help of an internal model upon consultation with FOPI.

Position of health insurers and health insurance schemes
Health insurers offering products under the Insurance Contract Act (ICA) are competing with health insurance schemes offering products under both the Health Insurance Act (HIA) and the ICA. Despite a similar or identical risk situation, the situation is not symmetrical with respect to supervision of these institutions, since FOPI uses the SST merely to impose a capital requirement on the health insurers, while supervision of health insurance schemes is the responsibility of the Federal Office of Public Health (FOPH). FOPI will give further consideration to ways of preventing potential distortion of competition.

Developments in Switzerland, the European Union and other countries
In 2006, representatives of FOPI were again invited to numerous events in Switzerland and abroad to report on the developments and findings of the SST and in this way to contribute to discussions on the development of similar models abroad.
The European Union is currently working intensively on the development of a model to evaluate economic capital and capital requirements, Solvency II. Several contacts exist between FOPI and the authorities of the European Union, especially the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), a working group appointed by the European Commission that is working on the development of Solvency II. Although Switzerland cannot be a member of this working group, representatives of FOPI have on several occasions been heard by both the European Commission and CEIOPS.
As part of its assessment of the economic and financial situation of Switzerland, a delegation of the International Monetary Fund (IMF) dealt intensively with insurance supervision and the significance of the SST in this regard in November 2006. The IMF recognized that FOPI has a modern, risk-based supervision regime at its disposal thanks to the SST. The move away from a calculation of capital requirements dependent on business volume and based on statutory accounting toward an evaluation on the basis of market values was also viewed as very positive. The IMF has criticised that the SST is not yet mandatory and that the capital requirements only have to be met five years after entry into force of the ISA.

Cooperation on training
In 2006, the Swiss Association of Actuaries (SAA) held a series of one-day courses on the SST in which representatives of FOPI also participated as lecturers. FOPI expects that the continuing demand for training can be covered by further events of this kind.

Swiss Quality Assessment

While the Swiss Solvency Test (SST) covers the quantitative side of risk-oriented supervision in particular and is already undergoing field tests, the Self-Assessment Modules (SAMs), which are used for the qualitative capture of operational risks of insurance undertakings, are still in the development phase.

As a matter of principle, a qualitative evaluation without the active participation of the insurance undertakings is hardly feasible. The regulator is therefore relying on inclusion of the undertakings and has chosen the method of self-assessment for this purpose. FOPI is thereby relying on a mechanism that is not least of all in the own interest of the insurance undertaking. The supervisory authority verifies, corrects, or supplements the self-assessment of the insurance undertakings as needed with a third-party assessment in the areas and business processes critical to quality.

Like the SST, the Self-Assessment Modules are also principle-based. This means that the aim is not compliance with rigid rules that are the same for all undertakings, but rather verification of the existence of appropriate company-internal parameters that adequately take account of the special features of the insurance undertaking concerned. Accordingly, the frequency, scope, and level of detail of the evaluation are adjusted to the special features and the risk situation of each insurance undertaking. For the qualitative evaluation, the Swiss Quality Assessment employs modern tools that may also be used by each company as a „checklist" for the conception and development of their own internal systems. Any measures arising from the self-assessment and, where applicable, the third-party assessment as well as their design are jointly discussed in the framework of a risk dialogue. Implementation is accompanied and monitored by the supervisory authority.

Legal foundations

In order to capture the qualitative aspects of risk-oriented supervision, FOPI relies on a methodology that is heavily characterized by Self-Assessment Modules (SAMs). These are still in the development phase.

The new supervision law constitutes a modern foundation for qualitative supervision. For instance, article 14 of the Insurance Supervision Act (ISA) requires that the persons responsible for overall direction, supervision, control, and management must guarantee sound and proper business operations. Insurance undertakings must be organised in accordance with article 22 ISA so that they are able to capture, limit, and monitor all significant risks. For this purpose, an effective internal control system (ICS) must be established, covering all business operations (article 27). The Supervision Ordinance (see articles 96 et seq. SO) concretises these requirements and demands that insurance undertakings continuously maintain updated documentation of their risk management.

Concept
The assessment modules for qualitative supervision

- process the individual evaluations of several affected and involved observers of the insurance undertaking;
- allow for a comparison of the results attained with the results of the other insurance undertakings (benchmarking);
- follow the body of thought of established international initiatives, standards, and norms such as the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission), Swiss Code of Best Practice, SWX directives, or CobiT (Control Objectives for Information and Related Technology – an audit standard for IT in connection with the internal control system).

Drafts of modules currently exist for:

- Corporate Governance: Review of the fidelity to principles, effectiveness, and quality of the corporate governance framework;
- Risk Management and Internal Control System: Review of the fidelity to principles and the functionality, quality, and effectiveness of the company-wide methods and processes;
- Claims Management and Information Technology: Review of the functionality, quality, and effectiveness of claims management and creation of provisions as well as of IT resources and IT organisation.

Tools for additional business processes, such as reserving or underwriting, are realised and employed where the need for action arises.

Package of measures
The business areas are evaluated on the basis of a predefined roster. If this assessment indicates a concrete need for action, the insurance company defines a package of measures in the framework of the risk dialogue, which it then prioritises and supplements with an implementation plan and schedule. The supervisory authority evaluates this package of measures, accompanies the process, and reviews the effectiveness of the measures.

Procedure
The implementation of SAM IT among six insurance undertakings has proven the methodological value of the tool. Based on these positive experiences, the SAM Claims Management Tool was then employed in eight additional insurance companies – in part still as a pilot trial. This process has not yet been concluded, but the initial responses also inspire confidence. It is planned to further develop, adjust, and further refine the modules over the course of the year together with representatives of the insurance industry and the Swiss Insurance Association (SIA). Based on these findings, concrete implementation can then be initiated.

Other legislative projects

Further implementation of supervision law

The new insurance supervision law entered into force on 1 January 2006. In the reporting year, intensive work was undertaken to further implement the new law. Approximately 20 directives have since been drafted, put into effect, and published. Additional directives are planned.

For purposes of implementing undetermined legal terms in the new supervision enactments - ISA[1], SO[2] and SO-FOPI[3] - the instrument of the directive is currently the most important. Directives aim to promote uniform official practice with respect to the supervision activities of FOPI. In principle, the power to issue directives (occasionally, the terms „instructions" or „circular" are used with the analogous meaning) constitutes a traditional component of the supervisory powers of supervisory authorities[4]. Unlike laws and ordinances, directives are not formal legal rules, to the extent they do not simply repeat provisions in laws or ordinances, but rather contain expressions of opinion on the interpretation of the applicable legal rules that the supervisory authority issues in the interest of consistent application of the law. The directives are drafted by the responsible specialised divisions of FOPI in the framework of the relevant norms of supervision law (ISA, SO, possibly other enactments of significance to supervision law). Subsequently, the affected professional organisations are heard. The results of these hearings are again evaluated by the FOPI and incorporated or rejected, leading to a final version of the text[5]. Directives put into effect are published on the FOPI website.

Directives already adopted

- Corporate Governance
  - Guarantee provisions
  - Risk management
  - Requirements for the responsible actuary
  - Internal audit
  - External audit
    - Preconditions for recognition
    - Audit requirements
  - Information requirement of insurance undertakings pursuant to article 47 ISA
  - Cooperation with audit offices with respect to tied assets

- Groups/Conglomerates
  - Organisation
  - Group/conglomerate structure
  - Group-/conglomerate-internal transactions
  - Calculation of the solvency margin at the consolidated level
  - Financial reporting

- Occupational Pension Plans
  - Directive on accounting for occupational pension plans (OPP)
  - Directive on auditing the accounting for occupational pension plans (OPP) by the external audit office

- Tied assets
  - Investment directive for tied assets

[1] Insurance Supervision Act (SR 961.01)
[2] Supervision Ordinance (SR 961.011)
[3] Supervision Ordinance-FOPI (SR 961.011.1)
[4] In the present case, this power is implied by article 46, paragraph 1 ISA.
[5] external counterparts = insurers and/or any other affected parties – internal counterparts = administrative and specialised divisions affected by the content of the instructions.

Example: The new investment directives for tied assets

CHF 270 billion (thousand million) in investments are managed as tied assets by private insurers in Switzerland for purposes of covering technical provisions. They are subject to the investment directives that were issued in 2006 as a further development of earlier rules. The new investment directives attach great importance to qualitative criteria. The investment universe may be expanded, and the insurance undertakings may also apply new, more complex instruments.

The insurance undertakings must be able to correctly capture and monitor the risks assumed due to the investments made. The investment directives demand that the insurance undertakings have the necessary expertise and the investment, risk, and management processes appropriate to the complexity of the investments.

In order to monitor the capital investments, FOPI has developed a new concept that provides for both systematic checks and for randomly conducted focus area audits:

- Requirements of ISA, SO, and investment directives
- Annual reporting by the insurer to the supervisory authority
- Annual audit actions by the external audit office, as provided by FOPI
- Systematic checks by FOPI of all insurance undertakings
- Compilation of market analyses
- Focus area audits conducted by FOPI and annually redefined
- Annual quantitative risk assessment of all assets as part of the SST.

Principles of the new investment directives

According to the legal foundations, the tied assets serve to secure the claims arising from insurance contracts. Tied assets therefore constitute a liability substrate for all policyholders, ensuring that their claims arising from insurance contacts will be satisfied before the claims of all other creditors. In the new Supervision Ordinance and in the investment directives, this protection of policyholders is further specified within the framework provided by the legislative power. For instance, all offset possibilities of third parties and the charging of securities (e.g. collateralisation) in the tied assets are excluded. Third-party raising of capital and repo transactions charged against the tied assets are likewise not possible, and no margin calls may arise. In the case of close-out netting agreements referring solely and exclusively to the offset of assets and receivables from the tied assets, exceptions are provided, so that derivative transactions are possible to a reasonable extent.

The goal of the investment directives is to consider the investments on the basis of their legal and economic characteristics. For instance, the rules concerning single investor funds, derivative financial instruments, and structured products are designed so that a look is taken through the existing structure (e.g. the fund) using a so-called „look-through“ approach, in order to identify and correctly assess the risks actually contained. Accordingly, not the vehicle as such is assessed, but rather the investments or risks contained therein. This also prevents the use of restructurings to circumvent the investment directives.

In principle, an investment may only be allowed as part of the tied assets if it fulfils the following points:

- The investment is made as part of an investment strategy determined by the insurance undertakings which is appropriate to the type and complexity of the insurance business operated and the financial situation of the insurance undertaking.
- The investment can, as a rule, be valued without difficulty and is highly liquid. Exceptions are contained in the investment directives and are compensated with stricter qualitative requirements.
- The investment may neither be charged nor offset with receivables of third parties (exceptions: master agreements / close-out netting agreements in the case of derivative transactions).
- The recoverability of the investment is legally undisputed and legally meets the requirements for tied assets (e.g. enforceability of bankruptcy privilege).
- The investment can be broken down into individual risk components and valuated accordingly.
- The creditworthiness of the debtor can be verified.
- The insurance undertaking has the necessary expertise and the appropriate processes and systems necessary for professional selection, management, and control of the investments made.

Expansion of the investment universe

The investment directives enable the extensive use of derivative financial instruments. Hedge transactions may be allowed both for the investments of the tied assets and for technical provisions (e.g. swaptions). Replicating strategies and, to a limit extent, acquisition preparation and yield increasing strategies are also possible. The master agreements usual in the worldwide derivative market and the collateral orders must meet certain requirements of the investment directives.

The investment directives permit the formation of single investor funds. Cooperation between the Swiss Federal Banking Commission and FOPI has ensured the consistency of the new investment directives and the Collective Investment Ordinance relating to single investor funds.

The trend toward alternative investments is also taken into account. Due to the complexity of these investments, the partially non-quantifiable nature of their risks, and the limited exit options, FOPI limits these investment possibilities to 10% of the target value of the tied assets. Additionally, high demands are made on organisation, expertise, investment process, due diligence, and risk management and control.

Investment in structured products is permitted, as long as the insurance undertaking meets requirements concerning the risk-related and accounting treatment of the individual components of the structure.

Revision of the Ordinance on Combating Money Laundering

The Federal Office of Private Insurance (FOPI) has revised the Ordinance of 30 August 1999 on Combating Money Laundering (MLO). The revision takes into account the recommendations formulated by the Financial Action Task Force (FATF) in its 2005 country evaluation on combating money laundering and terrorist financing.

At the same time, the revision was used to adjust the terminology to the new Insurance Supervision Act (ISA) and to harmonise the title of the Ordinance (now MLO FOPI) with the money laundering ordinances of the Swiss Federal Banking Commission (MLO SFBC) and the Anti-Money Laundering Control Authority (MLO AMLCA).

The principal changes

The revision mainly resulted in the following changes:

- Expansion of the clarification requirements with respect to politically exposed persons as well as links with terrorist or criminal organisations;
- Systematic risk monitoring of the thresholds required for identification of the contracting party and of business relationships with higher risks;
- Easing of the requirements on documents with probative value for identification of the contracting party;
- Company-external inspection of compliance with due diligence obligations.

Regulations must be adjusted in 2007

The amendments to the ordinance entered into force on 1 January 2007. A transitional period of one year has been granted to insurance undertakings for adjusting to the new provisions. This adjustment period will allow the Self-Regulation Organisation of the Swiss Insurance Association (SRO-SIA), which most life insurance undertakings operating in Switzerland have joined, to adjust its regulations to the legal foundations over the course of 2007. The amendments to the regulations must be approved by FOPI before the end of 2007.
Moreover, FOPI plans to explain the new provisions to the life insurance undertakings directly supervised by FOPI in the context of a presentation.

Since Parliament had not yet considered the Message of the Federal Council concerning the Federal Law on Financial Market Supervision (FINMA Act) at the time of entry into force of the Ordinance, the effects of integrated financial market supervision on anti-money laundering were still unclear at the time, which is why they must be included in a later revision where necessary.

Total revision of the ICA

The Federal Law on Insurance Contracts of 2 April 1908 (Insurance Contract Act, ICA) governs the relations under private law between insurance undertakings and insured parties. The ICA entered into force almost 100 years ago and has only been partially revised since then. It is therefore no longer able to fully meet the demands on modern, consumer-friendly legislation. For this reason, the ICA Expert Commission under the chairmanship of Professor Anton K. Schnyder was appointed on 11 February 2003 and mandated to deliver a draft law and explanatory report.
The total revision of the ICA will incorporate the political and consumer-protection concerns that were not yet taken into account by the partial revision undertaken in 2004. At the same time, the new ICA will in particular take into account as appropriate the parliamentary proposals submitted at the federal level, the recommendations of the Competition Commission, and the developments of insurance contract law in our neighbouring States. It will also improve coordination with social insurance and liability law.

Draft by the Expert Commission
The ICA Expert Commission delivered the draft law and explanatory report at the beginning of August 2006, bringing the work of the Expert Commission to an end. Upon conclusion of this first phase, the legislative process is now being continued. In September 2006, the FDF mandated FOPI to elaborate a consultation proposal based on the expert draft by the end of 2007. The internal development of a consultation draft within the Administration will review the preliminary draft and explanations by the Expert Commission from the perspective of insurance law.

Consultation procedure
The FDF will then decide on further steps and request the Federal Council to conduct a consultation procedure. The comments by the cantons, the political parties, and interested circles will provide important indications of the substantive correctness and enforceability of the planned measures and will allow conclusions to be drawn concerning the political acceptance with respect to realisation and implementation. Expertise outside the Federal Administration can thereby be incorporated and utilised. The Federal Chancellery will make the time of the consultation procedure and the consultation materials publicly available in electronic form in a timely manner.

Insurance supervision and FINMA

On 1 February 2006, the Federal Council published its Message concerning the Federal Law on Financial Market Supervision (Financial Market Supervision Act, FINMA Act). The project is now being considered by Parliament. In March 2007, it was debated by the National Council as the first chamber. The FINMA Act provides for integration of the Swiss Federal Banking Commission, the Federal Office of Private Insurance, and the Anti-Money Laundering Control Authority into a single authority which, as an autonomous establishment under public law, will be called FINMA.

The draft law provides that the aforementioned authorities will be integrated, but that supervision will continue to be administered in accordance with the sector-specific supervision laws. The various specialised divisions will be adequately represented in a two-level management structure, namely the board of directors and the general management of FINMA.

The integration is expected to give rise to synergy effects resulting from the use of crosscutting functions, the uniform design of processes, and the joint use of support functions. FINMA will also strengthen coherence among different areas, such as anti-money laundering and procedural issues. FINMA will also be able to exert greater influence internationally. In particular, it can further promote networking with other supervisory authorities in Switzerland and abroad and participate actively in Swiss and foreign forums. In this way, FINMA will, in an international comparison, provide the basis for an optimally positioned group supervision of groups directed from Switzerland.

The integration of insurance supervision within FINMA will also make it easier to take into account the critical special features of the supervision of insurance undertakings. This will in particular be true of the different risk positions and maturities, as well as the provision and cover of technical reserves with assets for the formation of tied assets. A key aspect will also be the appropriate consideration of different business models. Accordingly, tailored instruments such as the SST will be absolutely necessary in order to take the specific insurance risks adequately into account. Also significant will be the close links between certain insurance products and institutions working in the social insurances.

The draft law provides the necessary space to do justice to these specific features of the supervised insurance industry even under the joint umbrella of FINMA. Accordingly, integrated insurance supervision – i.e. the interplay between qualitative, risk-based supervision with the Swiss Solvency Test as well as the Swiss Quality Assessments and traditional supervision instruments – can be further developed in an organic way.

International developments

The focus of FOPI's international relations in the past year was clearly on the European Union. In addition, the dynamics of the International Association of Insurance Supervisors (IAIS) with respect to the development of standards necessitated the undiminished efforts of several FOPI staff members. These standards may not be binding for Swiss supervision; but since they constitute reference values for the country evaluations of the International Monetary Fund (IMF), their status as „soft law" also entails a special importance for us. Such a country examination, even though it was only declared to be an „update", was in fact again conducted in the past year.

European Union (EU)
On 10 February 2006, a Memorandum of Understanding (MoU) was signed. This formally concluded negotiations lasting more than a year and a half between the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and FOPI, and as a consequence, the insurance supervision authorities of all EU and EEA Members States bilaterally signed the MoU with FOPI. Even though the „EU" as an institution as such is not participating in the MoU and the signing of the MoU by FOPI therefore also does not constitute a political step towards the EU, its operational signification cannot be underestimated. The MoU is the basis for the inclusion of FOPI in EU group supervision. It not only enables information exchange, but also close cooperation of the supervisory authorities especially with respect to enforcement of group supervision, as the group and conglomerate directives require of Member States and the new Swiss Insurance Supervision Act requires of FOPI. In the meantime, three coordination committees that have been constituted for the supplementary supervision of undertakings belonging to insurance groups whose main registered offices are in Switzerland have taken the recent development of the relationships of the supervisors in the EU Member States and Switzerland as an occasion to recognise FOPI as the competent supervisory authority for purposes of supervising the insurance groups concerned from the perspective of the EU Member States. In this way, a duplication that has long been criticised by many parties has been elimiated in such cases.

IAIS
The activities of the IAIS in 2006 provide a good insight into challenges currently faced. FOPI therefore participates actively and endeavours to sit on the relevant IAIS committees and contribute its views.
The following documents adopted for 2006 should be noted in particular: first, the document entitled *„Roadmap for a common structure and common standards for the assessment of insurer solvency"* of 16 February 2006, which builds on the framework paper *„Towards a common structure and common standards for the assessment of insurer solvency"* from 2005 and is further developed in the February 2007 document on *„The IAIS common structure for the assessment of insurer solvency"*. The documents are a compendium of the current knowledge on how good insurance supervision should be designed. They constitute the basis for the future work of the IAIS. Of the other 12 standards, guidance and issues papers, and reports issued in 2006 along with the „Framework paper", only the following three documents shall be mentioned here:

- Following the analogous standards for non-life insurers (2004) and reinsurers (2005), the IAIS has now also adopted a standard for the disclosure of information on technical risks for life insurers, in order to increase market transparency and market discipline: *„Standard on disclosures concerning technical risks and performance for life insurers"*.

- The *„Guidance paper on risk transfer, disclosure and analysis of finite reinsurance"* also deals with disclosure, but in a completely different area. It represents a comprehensive survey of the manifestations of contractual relationships between two insurance undertakings variously termed finite, financial, structured, non-traditional or loss mitigation reinsurance, along with their risks.
- In the „Standard on asset-liability management", the IAIS identified 11 minimum requirements going far beyond asset-liability matching which good asset-liability management both of life and non-life insurers should meet.

OECD
In the *Insurance and Private Pensions Committee* (IPPC) of the OECD, in which FOPI has actively participated for a long time and which until May 2007 was chaired by Kurt Schneiter, Head of International Affairs for FOPI, the focus in terms of political significance was on settling the reservations to the new or amended provisions of the Code of Liberalisation of Current Invisible Operations. This work will however require another round of meetings in 2007. Regulatory efficiency was again another topic of discussion. Additionally, two major projects in particular that have been developed in recent years were further advanced: *„Financial Education"*, at two broadly-based international conferences in India and Russia, and the management of large risks, at a kick-off meeting of the High-level Advisory Board of the *„International Network on the Financial Management of Large-Scale Catastrophes"*.
Finally, it should be mentioned that, pursuant to an invitation by the Chairman, the IPPC for the first time held a meeting in Switzerland (Geneva) in the summer of 2006, due to the ongoing renovation work in Paris.

Exchange of experiences
In 2006, the German Financial Supervisory Authority (BaFin) invited the supervisors from Austria, the Principality of Liechtenstein and Switzerland to a German-language exchange of experiences. For the third time, both insurance and bank supervisors took part in the meeting. Due to scheduling difficulties, the French-language exchange of experiences had to be postponed until January 2007. The French supervisory authority had invited the insurance supervisors of Luxembourg, Belgium, and Switzerland.

Principality of Liechtenstein
In addition to centuries of cultural and political relations, Switzerland is linked to the Principality of Liechtenstein by the Insurance Agreement of 19 December 1996. A Joint Commission that has met annually since conclusion of the Agreement monitors the smooth functioning of this international treaty. In its meeting of 19 December 2006, on the tenth anniversary of the Agreement, the question was discussed of how to extend the Agreement to insurance intermediaries. The goal is to avoid the need for intermediaries to register in both countries. The question will be dealt with swiftly in 2007.

IMF
The International Monetary Fund (IMF) is one of the main parties interested in the standards of the IAIS: These standards serve namely as the foundation for the periodically conducted *Financial Sector Assessment Program* (FSAP). In the autumn of 2006, Switzerland underwent an FSAP „update", since the last FSAP had only been carried out four years earlier and a comprehensive country examination had been undertaken by the Financial Actions Task Force (FATF) on anti-money laundering in 2005. The results of the FSAP update published in the spring of 2007 are mixed. FOPI received highest marks for the Swiss Solvency Test, while it was pointed out that sufficient staff must be made available for implementation of the new enactments.
The „other" country examination of the IMF is carried out each year, namely the so-called Article IV Consultations in February/March. Unlike the FSAP, this country examination focuses more on macroeconomic aspects of the insurance industry and insurance supervision.

Supervision activities

Organisation of supervision

Supervision of individual undertakings and of insurance groups and conglomerates

Supervision model

With the development of ever larger insurance groups, insurance supervision is also called upon to develop appropriate models for supervision and to make adequate resources available. Traditionally, the starting point of insurance supervision is a legal person which must obtain the requisite authorisations, provide evidence of the required capital, and comply with the rules for provision and cover of technical reserves by forming tied assets, along with a wide range of other requirements.

This approach was expanded in the EU in 1999 and 2002 by enactment of Directive 98/78/EC on the supplementary supervision of insurance undertakings in an insurance group (Insurance Group Directive) and Directive 2002/87/EC on the supervision of financial conglomerates (Financial Conglomerates Directive); with these directives, the effects of membership in a group are also taken into account in the supervision of individual undertakings. In particular, the fitness and properness of managers, the capital adequacy of the required solvency, the risk management and internal control system of the group, and transactions within the group are monitored in addition to supervision of the individual company. Relevant provisions have also been included in the new Federal Law of 17 December 2004 on the Supervision of Insurance Undertakings (Insurance Supervision Act, ISA) in articles 64 et seq. on the supervision of insurance groups and in articles 72 et seq. on the supervision of insurance conglomerates. In this way, the Swiss legislative power has provided a mandate for monitoring insurance groups and conglomerates directed from Switzerland as well as foreign insurance groups and conglomerates without equivalent supervision.

In the course of the development of the Swiss Solvency Test and also the preparations for Solvency II in the European Union, it has become apparent that the supervision of insurance groups and conglomerates requires an even closer consideration of the links between group companies. For this reason, the supervision of individual companies must be carried out in close cooperation with group supervision. Provided that the Swiss supervisory authority monitors both the insurance group or conglomerate and the individual companies, the cooperation is the responsibility of an overall coordinator at the level of the FOPI management who ensures the proper exchange between experts in the divisions for group-wide supervision and individual supervision.

Placement under insurance group/conglomerate supervision by means of individual decrees

With the entry into force of the Insurance Supervision Act on 1 January 2006, FOPI has received the mandate, as mentioned above, to place insurance groups and conglomerates directed from Switzerland or not subject to equivalent supervision abroad under insurance group or conglomerate insurance supervision. The purpose of this supervision is primarily to secure solvency at the group level and to ensure governance, risk management, and the internal control system. Based on these considerations, two essential criteria can be derived for placement under supervision, namely the internationality and the complexity of a group or conglomerate. Upon analysing various corporate groups, FOPI decreed effective on 30 September 2006 that the Bâloise Group, the Swiss Life Group, the Swiss Re Group, and the Zurich Financial Services Group be placed under supervision as both insurance groups and as insurance conglomerates according to the new supervision law. The individual decrees issued under the old law have thereby been replaced. Effective on 30 September 2006, the Helvetia Group, the Mobiliar Group, the Nationale Suisse Group, and the Vaudoise Insurance Group have also been placed under supervision as insurance groups.

Focuses of insurance group and conglomerate supervision

Insurance group and conglomerate supervision as practised by FOPI focuses on the following aspects:

a) Direct supervision with involvement of the external audit office: The supervisory activity of FOPI relies primarily on direct supervision. In this way, FOPI gains immediate insight into a corporate group, thereby continuously expanding its expertise and keeping costs low for the groups. For selected partial areas such as the audit of the annual financial statement or the formal certification of compliance with provisions of supervision law, FOPI relies on the external audit office and, where necessary, other experts.

b) Consolidated and group-wide supervision: The group and conglomerate supervision practised by FOPI does not only cover a consolidated view of the corporate group. Rather, FOPI is interested in the risk situation and the links between the entities within the group or conglomerate – such as with respect to the SST and internal transactions. Special attention must be paid to the aggregation of all partial risks within a group or conglomerate and the restricted transfer of capital between different countries.

c) Cooperation with other supervisory authorities: The experiences and findings of individual supervision by foreign supervisory authorities must be taken into account. Intensive cooperation with supervision colleagues abroad is therefore an important foundation of supervision activity.

d) Building-block approach: In the case of insurance conglomerates, the risks and equity capital, the requirements of banking institutions within the conglomerate must be evaluated and calculated in accordance with Basel II. According to the building-block approach, the requirements in the insurance and financial areas are added together.

Implementation of supervision practice by means of directives

With the placement of eight groups and conglomerates under supervision, it became necessary to implement the supervision law provisions and supervision practice. Accordingly, FOPI enacted six directives covering the following areas at the end of 2006; these directives can be found on the FOPI website:

- Reporting on organisation
- Reporting on structure
- Reporting on internal transactions
- Solvency I
- Group/conglomerate report
- Corporate governance/risk management/internal control system

When implementing supervision, FOPI paid particular attention to inclusion of developments in the international insurance and financial world and the relevant supervision. As a consequence, groups and conglomerates:

- are not only viewed from the outside as a homogeneous structure (consolidated view), but also their internal aspects and group/conglomerate-internal processes and structures are made transparent, so that supervision arbitrage and circumvention are identifiable,
- are evaluated according to internationally recognised accounting standards,
- submit the annual reports of the external audit office to the board of directors, and the annual reports of the internal audit office to the external audit office and FOPI as a basis for evaluation,
- may only take allowable own funds into account for the Solvency I calculation which withstand a careful consideration throughout Europe,
- demonstrate to FOPI the organisation of their management structure, the responsibilities and powers of their management, their staffing, and their internal rules and regulations,
- subject their board of directors and management team to an inspection of fitness and properness, and comply with the principles of corporate governance.

Consequences of the Memoranda of Understanding

As mentioned previously, FOPI has developed a Memorandum of Understanding (MoU) together with the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). This declaration of intent regulates information exchange and cooperation – especially with respect to insurance groups and conglomerates – with the EU/EEA supervisory authorities. See also the section on „International developments" (page 19).

The MoU has dramatically improved the position of Switzerland in European insurance supervision. For instance, a representative of FOPI is invited as a permanent guest to the working group of CEIOPS responsible for implementation of the Insurance Group Directive. For a non-EU member, the participation of Switzerland in a CEIOPS working group should be considered particularly valuable.

Participation in the relevant meetings allows the Swiss supervisory authority to build up equivalent supervision with respect to insurance groups and conglomerates. Ensuring equivalence is in turn a prerequisite for recognition as a „Lead Supervisor" – in EU terminology – of foreign insurance supervisory authorities with respect to the supervision of insurance groups and conglomerates directed from Switzerland. The authority assuming this function is responsible for monitoring the assigned groups and must also coordinate the information flow among the regulators. In this way, dual supervision is prevented, and the workload for groups and conglomerates is reduced.

Recognition as a Lead Supervisor is granted separately for each insurance group. All competent EU/EEA supervisory authorities supervising an insurance undertaking in the group concerned must give their approval. This procedure applies to all groups with several insurance companies in the EU/EEA, i.e., not only to Swiss groups and conglomerates. Switzerland is currently recognised as Lead Supervisor for the following insurance groups: Bâloise, Helvetia and Nationale Suisse.

Non-life insurance: Higher coverage limits for natural forces insurance

Higher coverage limits have applied since 1 January 2007 with respect to insurance against damage by natural forces. In October 2006, the Federal Council approved amendments to the Supervision Ordinance, entailing a significant increase of coverage limits and also a change to the applicable deductibles.

Insurance against natural forces covers damage to chattels and buildings arising from high water, floods, storm, hail, avalanche, snow pressure, rockslide, rockfall, and landslide. The scope of coverage and the scales of premiums are uniform and binding for all private insurers. Given its great socio-political and economic significance, this principle has been enshrined by law since 1993.

Natural forces insurance

In 19 cantons, insurance against fire and damage by natural forces with respect to buildings is offered by cantonal building insurers through a monopoly. In the cantons of Nidwalden and Vaud, the cantonal monopoly also applies to the insurance of chattels (household effects and other chattels). In the other cantons, private insurers offer insurance of chattels, and in the GUSTAVO cantons (Geneva, Uri, Schwyz, Ticino, Appenzell Innerrhoden, Valais, and Obwalden), the private insurers also insure buildings against fire and damage by natural forces. The private insurers, but not the cantonal building insurers, are subject to supervision by the Federal Office of Private Insurance (FOPI).

Greater risk of damage by natural forces

The significant increase worldwide in the risk of damage by natural forces and the floods in the summer of 2005 in Switzerland showed that coverage limits of CHF 250 million per event for insurance against damage by natural forces to buildings and to chattels were not sufficient. According to data provided by the Swiss Insurance Association (SIA), floods damage in the summer of 2005 amounted to about CHF 1.335 billion for private insurers, CHF 950 million of which fell to natural forces insurance. The Swiss Insurance Association (SIA) therefore requested an increase of these coverage limits.

An increase of the coverage limits to CHF 1 billion per event for buildings and for chattels was indicated. This coverage limit applies to all damage arising from a natural forces event for buildings in the GUSTAVO cantons and for chattels insurance in all cantons except for Nidwalden and Vaud. The coverage limits for damage arising from natural forces in the other cantons is determined by cantonal legislation.

Amendments to the SO

In its meeting of 18 October 2006, the Federal Council passed an increase of the coverage limits and changes to the deductibles. The amendment to the Supervision Ordinance entered into force on 1 January 2007.
The simultaneous increase of the coverage limits and the changes to the deductibles ensure that the premiums for natural forces insurance only need to be increased modestly, despite the quadrupling of the coverage limits.

Rate adjustments and cancellation right

These amendments to the SO and the relevant FOPI decree require insurance undertakings to apply the new rates for natural forces insurance to all new and all existing insurance contracts effective from1 January 2007.
Neither the Federal Law on the Supervision of Insurance Undertakings (Insurance Supervision Act, ISA, SR 961.01) nor the Federal Law on Insurance Contracts (Insurance Contract Act, ICA, SR 221.229.1) contains provisions concerning the right of policyholders to cancel in connection with the aforementioned adjustments. The question of a cancellation right must be assessed in accordance with the relevant contractual provisions.
If a dispute arises concerning the existence and form of a cancellation right, it shall be decided by a civil judge in accordance with article 85 ISA.

Reinsurance: Consolidation trend in the reinsurance market

Unlike 2005, there were no major natural disasters and resulting recapitalisations of reinsurance undertakings in the reporting year. The consolidation trend is still in full swing. In the reporting year alone, however, three new professional reinsurers were founded, which can be interpreted as a countertrend. The implementation of the Insurance Supervision Act is affecting the reinsurance market.

Probably the most significant event during the reporting year was the takeover of General Electric Insurance Solutions by Swiss Re. This transaction was approved by FOPI in May 2006 and completed by approximately the middle of the year. The precise effects of the takeover will likely become apparent by the middle of 2007 at the earliest. However, it can already be noted that this takeover makes Swiss Re the largest reinsurance group worldwide, ahead of Munich Re. The takeover of Revios Rückversicherungs-AG by SCOR is also worthy of note: In Switzerland, the takeover led to an indirect change of the ownership of Revios Rückversicherungs-AG, Zug, that was subject to approval. The transaction was completed in November 2006. SCOR has thereby become a prominent provider of life reinsurance worldwide.

Three new professional reinsurers

In the reporting year, three new professional reinsurers received authorisation to take up reinsurance activities. These reinsurers are Flagstone Réassurance Suisse SA, PARIS RE Switzerland AG and CRIP AG. The Flagstone Group is a reinsurance group domiciled in Bermuda; its newly founded Swiss subsidiary will deal with the European market. The Paris Re Group is the successor organisation of Axa Re, and CRIP AG is a reinsurer specialised in occupational pensions. In one important case, no authorisation could be granted, since financing did not succeed.

No new captives founded

With respect to market exits, five reinsurance captives were released from supervision in 2006. This corresponds approximately to the average over many years. Much more astonishing is the fact that not a single reinsurance captive was formed in 2006. This development is possibly due to the increase of the minimum capitalisation of reinsurance captives from CHF 1 million to CHF 3 million introduced with the new Insurance Supervision Act.

Life insurance: Implementation of transparency requirements for occupational pensions

As of mid-2006, all private Swiss life insurers offering Occupational pension plans submitted a separate, complete accounting statement to FOPI for the first time, the OPP Account, as required by ordinance. A significant result of the 2005 OPP Account: In the reporting year, the average distribution quota was 92.7%.

The Ordinance on the Supervision of Private Insurance Undertakings (SO) of 9 November 2005 requires the affected life insurance companies offering Occupational pension plans to keep a separate OPP accounting statement („OPP Account“) with separate savings, risk, and cost processes. These three processes take the amount of all significant earning and expense items into account. Deducting expenses from earnings for each process generates the result of the accounting statement. After building the necessary provisions as provided by the business plan and deducting the insurer’s share, the result is allocated to the surplus fund for the benefit of the OPP institutions and their insured parties:

Earnings in the savings, risk, and cost process	CHF 8.2 billion
Expenses in the savings, risk, and cost process	- CHF 6.2 billion
Result of the 2005 OPP Account	CHF 2.0 billion

In the 2005 business year, the difference between earnings and expenses amounted to approximately CHF 2.0 billion. Of this amount, approximately CHF 0.7 billion was used to form technical provisions. Another CHF 0.7 billion was allocated to the surplus fund for the benefit of the insured parties, and CHF 0.6 billion was allocated to the insurers for building solvency capital.

Mechanism for surplus distribution

Application of the „Legal quota“ (article 147 SO) The earnings-based calculation specifies that at most 10% of the earnings from the savings, risk, and cost process may be retained by the insurance companies. The insurer’s share of the „Legal quota“ is used to build up the legally required solvency capital and to pay interest on the provided risk capital. The remaining at least 90% is credited to the insured parties in the form of insurance benefits and surplus dividends.

Profit-based distribution specifies that the insured parties receive 90% of the result (=profit) and the insurers receive 10%. This distribution is used when the yield of the insurer is at least 6% (assigned capital yield of 6% of the assigned capital investments) and the minimum interest rate does not exceed 4% – i.e. for very good conditions.

In the case of the earnings-based method, which was applied for the 2005 reporting period, the earnings from the savings, risk, and cost processes are determined and added together in the accounting statement. This generates the gross earnings. Of this amount, the insured parties are entitled to a minimum distribution rate of 90% (Legal quota) but at least to fulfilment of the guaranteed insurance obligations. The insurer may also grant a distribution rate that exceeds the minimum quota. In the 2005 business year, the average distribution rate was 92.7%. The guaranteed obligations and the operating costs of the life insurer are financed by the insured parties’ share of the gross earnings. To meet the guaranteed obligations, the life insurer must form and increase the technical provisions to cover future obligations vis-à-vis active insured parties and pensions recipients . The portion remaining after financing the obligations and operating costs must be allocated to the surplus fund. The surplus fund is a technical balance sheet item for the provision of surpluses.

In a second step, the surplus dividends accumulated in the surplus fund are assigned to the OPP Institutions and their insured parties. The balance of the surplus fund corresponds to the difference between the surplus dividends *allocated* to the surplus fund and those *actually paid* to the insured parties. The balance arises from the legally required characteristic of the surplus fund to adjust weak or even negative results in bad years. Of course, the legislative powers did not envisage the surplus fund as a way to cover an operating deficit: First, in such a case, the insurer may not withdraw a profit share from the OPP Account, and second, surplus shares *allocated* to the surplus fund must be *assigned* in full to the insured parties and distributed within 5 years.
Through the *allocation* of surplus dividends in the amount of approximately CHF 0.7 billion for the 2005 reporting year, the surplus fund was increased by this amount from CHF 0.5 billion as of the end of 2004 to CHF 1.2 billion as of the end of 2005.
In the 2005 reporting year, a total of approximately CHF 0.4 billion was actually *assigned* to the OPP Foundations for the benefit of their insured parties, i.e. definitely designated to be paid out, so that CHF 0.8 billion remained in the surplus fund for distribution in the following five years.

Formation of additional provisions
Private life insurers must build the required technical provisions necessary to meet their obligations vis-à-vis active insured parties and pension recipients. Additional technical provisions, the so called reinforcements, must be formed if calculation assumptions made in the past (mortality probabilities, disablement probabilities, technical interest rate, and so on) evolve towards the uncautious side in the long run.
Nearly 50% of the additionally formed technical provisions in the amount of CHF 0.7 billion are for the account of claims that have inccurred but not yet been reported (IBNR). This indicates an increased sensitivity of the insurers to the disablement probabilities that have risen in recent years. Approximately 20% of the additionally formed technical provisions are set aside to hedge against coverage gaps in the case of pension conversions. This indicates the ongoing problem of (too) high pension conversion rates. Hedging of the longevity risk in the case of old-age pensions comes in third place with respect to the formation of technical provisions, at slightly more than 15% of the newly formed technical provisions. Based on the persistent low interest rate level and the steadily increasing life expectancy, private life insurers will therefore have to continue to regularly strengthen their coverage capital for current pensions.
According to the mechanism for surpluses distribution, the formation and enhancement of the necessary technical reserves must take place before feeding the surplus fund and the life insurer's share for solvency capital has been withdrawn from the accounting statement. This transparent approach ensures that the life insurer must first honour its guaranteed obligations before distributing surpluses. It also shows that too high pension conversion rates primarily diminish the old-age assets of the active generation of insured parties and not the life insurer's share of the achieved surpluses. If, however, the OPP Account is in danger of a deficit arising from too high expenses for current pensions while the surplus fund has severely deteriorated, then the life insurer must ensure additional coverage drawn from the solvency capital he has constituted outside the OPP Account.

Market movements
As of 31 December 2005, 14 private life insurers continue to offer collective insurance in the framework of occupational pension plans. 90% of the business, however, is concentrated in the hands of 5 life insurers:

Market size
in millions of CHF premium volume

	In m CHF	Share in %	Added
Rentenanstalt	6'131	31.2	31.2
Winterthur	5'966	30.3	61.5
Zurich	2'006	10.2	71.7
Basler	1'814	9.2	81.0
Patria	1'530	7.8	88.7
Allianz Suisse	961	4.9	93.6
Pax	510	2.6	96.2
Mobiliar	348	1.8	98.0
National	233	1.2	99.2
Axa	49	0.2	99.4
Zenith	47	0.2	99.7
Generali	45	0.2	99.9
Phenix	20	0.1	100.0
Total	19'659		

Looking at the development over time, a steady consolidation process is underway:

Development of the total premium volume over time

Reporting year	2002	2003	2004	2005
In m CHF	23'013	22'768	21'381	19'659

In a consolidating market segment divided up between a few potent market players, competition is tough. This fact is shown in particular by the operating costs. Although they are still high at an average of CHF 672 per person, already planned cost reductions will result in further cutbacks.

Autonomous pension institutions, collective foundations and private life insurers are equally exposed to the conditions on the capital market, but not with the same consequences. The collective foundations and the private life insurers are subject to competition and migration pressures. At any time they must count on losing contracts and the associated coverage capital. This circumstance primarily burdens private life insurers, since

- special regulatory provisions by the FOPI affect them only,
- their policyholder base is exposed to a considerable danger of abrupt interest rate increases (as a consequence of the limitation of the interest rate risk deduction to five years of the contract period), and
- they are subject to the strict solvency regime of the private insurance industry.

Conclusion

By reviewing and analysing the OPP Account, FOPI ensures greater transparency in the area of Occupational pensions plans administered by the private insurance industry. It monitors compliance with the „Legal quota" and the actuarially fair distribution of surplus dividends to pension insitutions and their insured parties. In order for private life insurers to be able to meet their contractually guaranteed obligations, carefully calculated technical provisions are necessary. The calculation methodology, the formation mechanism, and the dissolution rules must be specified in the life insurer's business plan. FOPI monitors the careful design and consistent implementation of the rules set out in the business plan. Finally, life insurers must annually measure their risk exposure with the Swiss Solvency Test (SST) and deposit sufficient risk-bearing capital. FOPI reviews and approves the risk modelling and takes measures to secure solvency.

Health insurance: Supervision activities and economic development

In the subsectors of above-mandatory health insurances, different financial developments took place in recent years. Supervision by FOPI was accordingly differentiated. This connection is explained below for the most important areas of supplementary insurance and for daily sickness allowance insurance for the period from 2002 and 2006 (statistics and calculations are only available up to 2005).

Structural market problems and their challenges

To secure their existence, many insurers attempt to improve their economic starting position through competitive advantages. Possibilities include expanding the palette of products, moving policyholders into existing client bases, or achieving synergies through cost management, optimisation of the distribution network, or participation in a suitable IT platform. Larger health insurers also acquire insurance portfolios offered or also corresponding holdings. For instance, Sanitas has taken over Wincare and the health and accident insurance portfolio of Winterthur. This trend continues, since many non-life and life insurers focus on their core businesses and like to transfer health insurances to other insurers.

Small health insurance schemes choose other paths. In recent years, they have merged with other health insurance schemes, or they have voluntarily or upon recommendation transferred their portfolio to another insurer while retaining part of the administration. Another approach consists in concluding cooperation agreements with larger health insurers, in order to voluntarily transfer the insurance contracts of small health insurance schemes to their cooperation partners.

This market behaviour of the providers has led to a concentration. Until now, ten groups active in this business sector have emerged. FOPI's task has been to review and approve the portfolio transfers and monitoring changes in holdings. The assessment of the consequences for future solvency is particularly demanding, and the goal is to ensure that contractual obligations for the benefit of the insured parties are met. In addition, due to the formation of groups whose core business is health insurance, the financial, personnel, and organisational linkages have also become an object of supervision from case to case.

With the revision of the ISA, the associated ordinance guarantees insured parties in closed client bases the right to transfer to an equivalent open client base, if it exists. This measure is intended to take the protection of insured parties into account, since the health insurers voluntarily waive their cancellation right upon conclusion of the contract. At the same time, however, it allows health insurers to administer their policyholder bases more efficiently.

Supervisory activities in the areas of outpatient care/general hospital coverage/dental insurance/nursing insurance
Over 600 products exist in this segment, whose earnings situation remains stable due to continuous premium adjustments. Dental insurances and insurances for complementary medicine are not complementary for purposes of the HIA. For these insurances, the growth in earnings has also continued.
The exclusion of five areas of complementary medicine benefits from basic insurance coverage as of July 2005 has reopened this field of business to supplementary insurers. One quarter of the products submitted for review since 2005 has concerned coverage for alternative medicine. Tougher competition has also become noticeable, as demonstrated by the granting of rebates.

Supervisory activities in the area of daily sickness allowance insurance
The improvement of the Swiss economic situation was able to significantly relieve the average claims rate of collective and individual daily sickness allowance insurance in 2005. At the same time, a market expansion has taken place through the development of large policyholder collectives. With its takeover of the collective daily allowance business of La Suisse in 2005, Helsana has become the largest provider in this segment. FOPI approved this portfolio transfer once evidence was provided that solvency and the protection of insured parties were guaranteed.
In 2005 and 2006, FOPI processed eight applications for new individual daily allowance insurances, most of which were submitted by small health insurance schemes and small private insurers.

Supervisory activities in the areas of semi-private and private hospital insurance
Earnings have decreased in this subsector. The reasons lie in the relatively high average annual premiums per insured party of more than CHF 1,700 and, despite the cushioning effect of deductibles, continuously increasing benefit payments, which are especially high for the oldest age categories and can only partially be compensated by premium increases. The high and continuously increasing premiums are reasons why healthy and younger policyholders drop their hospital coverage over time. This results in a loss of annual coverage amounts, and solidarity decreases. The comparatively minor premium increases document the increased pressure within the sector to cushion this development with respect to supplementary hospital insurance.
In addition to monitoring of solvency and abuse, the focus of the annual reviews of hospital insurance schedules is on the protection of older members of closing or closed policyholder bases from unjustified rate increases.

Background
Supplementary insurances under the Insurance Contract Act (ICA) such as hospital insurances, insurance for outpatient care, and nursing insurances may be offered on a complementary basis to social health insurance in accordance with the Health Insurance Act (HIA). Three quarters of the supplementary health insurance business are covered by private insurers, and the rest is covered by social health insurance schemes. FOPI supervises the private insurers institutionally. For social health insurance schemes offering supplementary insurances, supervision is divided between the Federal Office of Public Health (FOPH) and FOPI. Since 1996, FOPI has supervised nearly 1,000 heterogeneous products offered by 81 insurers. The focus of its supervisory activity is on ensuring the solvency of insurer and protection of insured parties from abuse.

Supervision of intermediaries: Professional register established – material supervision operational

The transparency in distribution aspired to by the Insurance Supervision Act (ISA) has prevailed. 10,485 intermediaries were registered during the last nine months – twice as many as originally expected. In parallel with the supervision of the register, the Intermediaries Supervision Division has begun inspections and various market clarifications in 2007.

Since 1 January 2006, insurance intermediaries have been subject to supervision by the Federal Office of Private Insurance (FOPI). The central instrument of this supervision is the public register that is accessible via the intermediaries platform at www.vermittleraufsicht.ch. FOPI will complete the establishment of the register in the first half of 2007. Due to the fact that most of the (tied) intermediaries acting primarily in the interest of the insurance undertakings have entered themselves in the public register, the extent of the success in improving transparency (as a key market criterion of the sector) has been unexpected.

The sector initially assumed that there would be 5,000-6,000 registrations. In particular the tied intermediaries, whose entry in the register is voluntary, ended up also showing interest in registration and now constitute nearly 60% of the approximately 12,000 published entries, which represents twice the original assumption. Approximately 1,000 legal persons are currently also entered in the public register.

Need for clarification of professional experience

In general, the applications of tied intermediaries could be processed in a timely manner. The most frequent requests for additional information concerned proof of sufficient professional experience. With respect to the financial security of independent intermediaries, the different structures and the forms of professional liability insurance gave rise to requests for additional information. The fear that no actual market would evolve in this area proved to be unfounded.
In general, only few applications had to be rejected due to a lack of personal qualifications (certificate of loss, entry in the criminal register, etc.). In such cases, the official practice is likely to be confirmed by the new Federal Administrative Court.

Inspections and market supervision

In contrast to the supervision of insurance undertakings, the supervision of intermediaries does not include a solvency audit. However, the supervision of intermediaries is also intended to protect consumers from damages and goes beyond simple supervision of the register. Supervision activities include inspections and market supervision.
In the case of on-site inspections, the original information provided by the brokers is audited with respect to fulfilment of the registration requirements. Cooperation agreements with insurance institutions and provisions may also be the subject of discussion. Finally, the audit includes a sample review of whether the insurance intermediary meets the new information requirements under article 45 ISA in all respects. All tied and independent intermediaries have had to meet these information requirements since 2006 on the occasion of their first personal client contact.
With respect to market supervision, FOPI pursues indications obtained from the market. For instance, the broker lists of insurance undertakings are compared with the register, and intermediaries at fault are dealt with.
The supervisory authority also seeks out contact with foreign authorities. Before the end of this year, FOPI aims to agree on mutual recognition of register entries by way of an international treaty with the Principality of Liechtenstein.

Register and additional information: Intermediaries portal of the Federal Office of Private Insurance
www.vermittleraufsicht.ch

Market overview

Insurance companies domiciled in Switzerland

1. Summary of the results of the market overview

An overall consideration shows that the recuperation trend observed in the Swiss insurance sector over the last three years has continued.
An overview of the most important results:

- Equity capital has experienced a further significant increase relative to the previous year, both in non-life and in life insurance.
- The premium volume in non-life insurance has grown, while a decrease has been recorded in life insurance relative to the previous year.
- In comparison with the previous year, non-life insurers benefited from a more favourable claims development, which was reflected in a lower claims ratio and a lower combined ratio.
- The generally good state of the financial markets was reflected in better financial earnings for the non-life insurers. Life insurers, however, recorded a decline in comparison with the previous year.

2. General remarks

As in previous years, FOPI again requested extensive numerical data on the past business year even before the due date of the final reporting for 2006. All life and non-life insurers subject to the reporting requirement were called upon to submit either final figures or, where necessary, appropriate estimates. The data for the 2006 business year is juxtaposed with the final figures for 2005.
In addition to evaluations relating to the classical supervision instruments of solvency ratio and cover of tied assets, financial indicators were also requested. At the same time, the requested companies had to subject their solvency ratio to three pre-defined stress scenarios. Finally, additional information on the assets (including translation of the statutory balance sheet values into a market-consistent approach) was requested.

3. Accounting principles

The supervised insurance undertakings must compile their annual financial statement required by insurance supervision law in accordance with the principles set out in the Code of Obligations and in the special provisions of supervision law. The new Insurance Supervision Act (ISA), which entered into force on 1 January 2006, also contains a few additional rules on the accounting of insurance undertakings. One of these rules concerns the valuation of fixed-interest securities, which may be balanced at most at amortised cost. The individual financial statement required by insurance supervision law constitutes the basis for the supervisory instruments, since the demands of policyholders primarily obtain vis-à-vis the legal unit. The assessment of surplus allocations is also based on the individual financial statement required by insurance supervision law.

Overview of the most important indicators (business in Switzerland and abroad)

	Life insurers			Non-life insurers		
(figures in billion CHF)	**2006**	2005	+/-%*	**2006**	2005	+/-%*
Earned gross premiums	**34.5**	35.8	-3.57	**49.0**	47.6	+2.84
Expenditures for insured events (gross)	**37.0**	34.8	+6.25	**31.4**	35.5	-11.59
„Claims Ratio"**	**n.a.**	n.a.	n.a.	**64.02%**	74.46%	-10.44
Financial earnings	**10.9**	11.6	-6.30	**4.0**	3.4	+17.36
Expenditures for insurance operations for own account	**3.2**	3.5	-6.94	**11.6**	10.7	+8.94
„Cost Ratio"**	**11.20%**	11.38%	-0.18	**26.10%**	24.86%	+1.24
„Combined Ratio"**	**n.a.**	n.a.	n.a.	**90.12%**	99.32%	-9.20
Reported equity capital***	**9.3**	7.9	+18.34	**23.9**	20.4	+17.32
Solvency ratio**	**251%**	247%	+4.00	**333%**	323%	+10.00
Cover margin of the tied assets****	**10.0**	10.4	-3.61	**8.2**	9.1	-10.45

* Percentage deviations are calculated in unrounded figures in all tables
** Effective deviation, not in percent
*** Before profit distribution
**** Since 1 January 2006, the target amount must also be covered in accordance with the gross coverage principle (not counting reinsurance).

Definitions

„Claims Ratio"
Expenditures for insured events (gross) in relation to earned gross premiums (gross claims ratio)

„Cost Ratio"
Expenditures for insurance operations for own account and expenditures for the management of capital investments in relation to earned gross premiums (operational cost ratio)

„Combined Ratio"
„Claims Ratio" plus „Cost Ratio"

Solvency ratio
Available solvency margin (allowable equity capital) in relation to the required solvency margin (required equity capital)

Business in Switzerland
Business achieved in Switzerland

Business abroad
Business achieved via branches of Swiss undertakings abroad

4. Detailed data for the reporting year*

4.1 Premiums

Development of earned gross premiums
Life and non-life insurers

(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**48.4**	49.0	-1.21
Business abroad overall	**35.1**	34.4	+1.94
Total	**83.5**	83.4	+0.09

Overall, the earned gross premiums decreased relative to the previous year for business in Switzerland. For business abroad, however, an increase was recorded.

Development of earned gross premiums
Life insurers

(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**28.6**	29.7	-3.49
Business abroad overall	**5.9**	6.1	-3.96
Total	**34.5**	35.8	-3.57

In life insurance, the premium volume decreased both for business in Switzerland and for business abroad.

Development of earned gross premiums
Non-life insurers

(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**19.8**	19.3	+2.28
Business abroad overall	**29.2**	28.3	+3.22
Total	**49.0**	47.6	+2.84

In non-life insurance, both business in Switzerland and business abroad improved.

* The figures for the 2006 business year are in part based on interim financial statements of the insurance companies. In contrast, the figures for the 2005 business year published in this annual report are final. Accordingly, minor deviations concerning the figures for the 2005 business year may arise in comparison with our 2005 annual report.

4.2 Insurance benefits

Development of expenditures for insured events (gross)
Life and non-life insurers:

(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**46.6**	44.9	+3.98
Business abroad overall	**21.8**	25.4	-14.63
Total	**68.4**	70.3	-2.76

While the expenditures for insured events for business in Switzerland increased overall relative to the previous year, they decreased substantially for business abroad.

Development of expenditures for insured events (gross)
Life insurers

(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**32.9**	30.1	+9.42
Business abroad overall	**4.1**	4.7	-13.91
Total	**37.0**	34.8	+6.25

The expenditures for insured events increased in the reporting year and are again greater than the earned gross premiums. The gross unearned premium reserve decreased by 1.16% to CHF 246.7 billion.

Development of expenditures for insured events (gross)
Non-life insurers

(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**13.7**	14.8	-7.09
Business abroad overall	**17.7**	20.7	-14.79
Total	**31.4**	35.5	-11.59

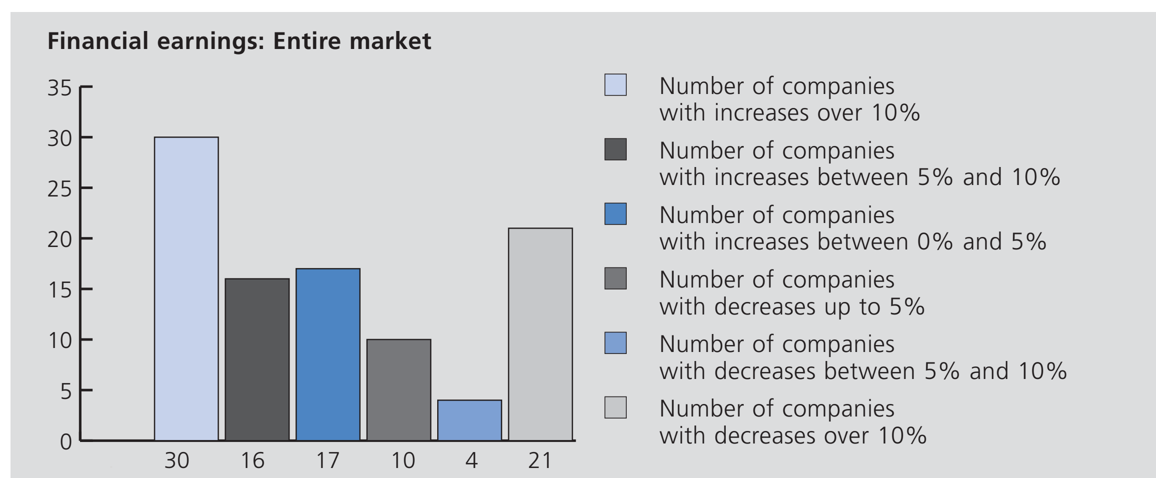
The development of expenditures for insured events for non-life insurers benefited from the favourable claims development in the reporting year.

4.3 Financial earnings (capital investment and interest earnings)

Development of financial earnings
Life and non-life insurers:

(figures in billion CHF)	2006	2005	Dev. in %
Business in Switzerland overall	**11.3**	11.2	+1.87
Business abroad overall	**3.6**	3.8	-6.70
Total	**14.9**	15.0	-0.35

The financial earnings contain the direct capital and interest earnings, realised gains and losses on investments, all appreciation and depreciation on capital investments, and investment management costs.
Overall, the financial earnings have changed only insignificantly relative to the previous year. The most important income position contained in the financial earnings, namely direct capital investment income, increased only slightly relative to the previous year, reflecting the still relatively low general interest rate level. The percentage of shares is slightly less than 10%.



Development of financial earnings
Life insurers

(figures in billion CHF)	2006	2005	Dev. in %
Business in Switzerland overall	**8.5**	9.1	-6.89
Business abroad overall	**2.4**	2.5	-4.19
Total	**10.9**	11.6	-6.30

Both overall and with respect to business in Switzerland and abroad, financial earnings declined in the reporting year.

Development of financial earnings
Non-life insurers

(figures in billion CHF)	2006	2005	Dev. in %
Business in Switzerland overall	**2.8**	2.1	+36.24
Business abroad overall	**1.2**	1.3	-11.42
Total	**4.0**	3.4	+17.36

Overall, the financial earnings of non-life insurers improved.

4.4 Administrative expenditures

Development of expenditures for insurance operations for own account Life and non-life insurers			
(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**6.9**	6.9	+0.34
Business abroad overall	**7.9**	7.3	+9.49
Total	**14.8**	14.2	+5.05

While the expenditures for insurance operations in Switzerland remained stable, they increased relatively substantially in comparison with the previous year for business abroad.

Development of expenditures for insurance operations for own account Life insurers			
(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**2.4**	2.6	-5.95
Business abroad overall	**0.8**	0.9	-9.67
Total	**3.2**	3.5	-6.94

The expenditures for insurance operations decreased both for business in Switzerland and for business abroad.

„Cost Ratio" Life insurers			
	2006	2005	Dev. in %
„Cost Ratio"	**11.20%**	11.38%	-0.18

Because the expenditures for business operations increased more strongly than the earned premi-ums, the cost ratio improved accordingly.

Development of expenditures for insurance operations for own account Non-life insurers			
(figures in billion CHF)	**2006**	2005	Dev. in %
Business in Switzerland overall	**4.5**	4.3	+4.03
Business abroad overall	**7.1**	6.4	+12.28
Total	**11.6**	10.7	+8.94

Both for business in Switzerland and for business abroad, the expenditures for insurance operations increased in the reporting year in the non-life insurance sector.

4.5 Combined ratio

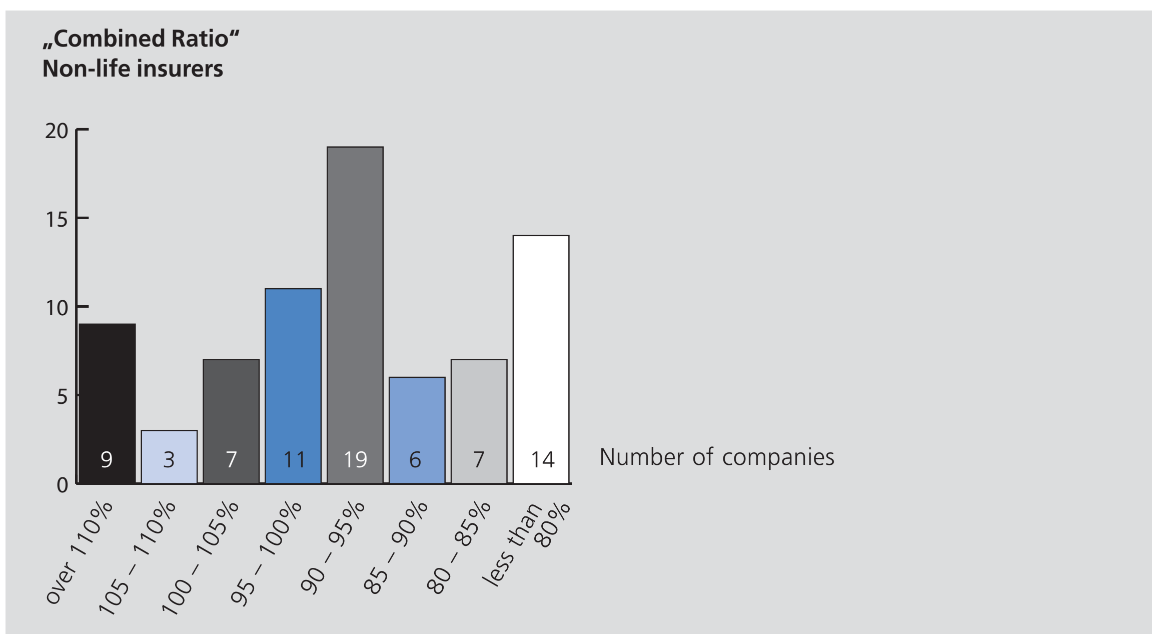
The indicators of the claims and cost development of non-life insurers changed as follows:

Indicators of the claims and cost development Non-life insurers

	2006	2005	Dev. in %
„Claims Ratio“	**64.02%**	74.46%	-10.44
„Cost Ratio“	**26.10%**	24.86%	+1.24
„Combined Ratio“	**90.12%**	99.32%	-9.20

The combined ratio as the most important indicator in non-life insurance is significantly lower in the reporting year than in the previous year, thanks to the favourable claims development.

The following figure shows the breakdown of the combined ratio by number of non-life insurers:



4.6 Asset allocation

The allocation of the assets below, representing a large part of the balance sheet total from the individual financial statements, presents itself as follows as of 31 December 2006 and 31 December 2005, on the basis of market-consistent values and broken down by life and non-life insurance:

	Life insurers		**Non-life insurers**	
(figures in billion CHF)	**31.12.06**	**31.12.05**	**31.12.06**	**31.12.05**
Real property and buildings (incl. real estate used by the company itself)	32.6	33.0	8.4	7.9
Shares in real estate companies	1.1	1.1	0.1	0.1
Shares in affiliated undertakings and holdings	8.1	8.8	42.7*	30.9*
Loans to affiliated undertakings, holdings, and shareholders	6.8	6.2	1.2	9.3
Shares and units in investment funds, other variable interest securities, and own shares	32.1	31.2	12.0	9.7
Fixed-interest securities	153.5	148.7	50.9	44.5
Promissory note bonds and debt register claims	18.5	19.1	10.1	6.8
Mortgage claims	22.8	23.3	3.6	3.4
Fixed deposits and similar capital investments	4.0	10.9	3.4	3.3
Hedge funds	6.5	6.0	0.6	0.5
Private equity	1.0	0.7	0.2	0.2
Liquid resources	7.6	10.6	5.9	5.3
Other capital investments	8.5	8.3	6.1	7.0
Total	**303.1**	**307.9**	**145.2**	**128.9**

	Life insurers		**Non-life insurers**	
Share in %	**31.12.06**	**31.12.05**	**31.12.06**	**31.12.05**
Real property and buildings (incl. real estate used by the company itself)	10.77%	10.72%	5.78%	6.13%
Shares in real estate companies	0.36%	0.35%	0.10%	0.09%
Shares in affiliated undertakings and holdings	2.67%	2.87%	29.44%*	23.98%*
Loans to affiliated undertakings, holdings, and shareholders	2.24%	2.03%	0.81%	7.19%
Shares and units in investment funds, other variable interest securities, and own shares	10.61%	10.14%	8.29%	7.53%
Fixed-interest securities	50.65%	48.31%	35.00%	34.50%
Promissory note bonds and debt register claims	6.10%	6.19%	6.98%	5.28%
Mortgage claims	7.52%	7.58%	2.51%	2.63%
Fixed deposits and similar capital investments	1.30%	3.54%	2.32%	2.57%
Hedge funds	2.15%	1.94%	0.41%	0.40%
Private equity	0.32%	0.21%	0.16%	0.15%
Liquid resources	2.51%	3.43%	4.04%	4.11%
Other capital investments	2.80%	2.69%	4.16%	5.44%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

* Two non-life insurers acting as parent companies with holdings in insurance companies account for 90% of the reported amount.

4.7 Occupational pension plans (business in Switzerland)

As of the middle of 2006, all private Swiss life insurers offering occupational pensions submitted a separate, complete statement of accounts to FOPI for the first time and in accordance with the applicable ordinance. This statement of accounts includes an earnings statement and balance sheet as well as the technical classification into savings, risk, and cost processes. Additionally, the statement of accounts contains information on the structure of the client base and the principles governing the balance sheet, as well as a binding disclosure scheme on the minimum rate vis-à-vis the insured pension schemes. The figures for the 2005 business year and the associated report are published on the FOPI website www.bpv.admin.ch under Documentation / OPP Account / Publication of 2005 figures. In the second half of 2007, the corresponding results from the 2006 business year will be uploaded to the same location.

*4.8 Equity capital and solvency (Solvency I)**

Development of the reported equity capital

(figures in million CHF)	**2006**	2005	Dev. in %
Life insurers			
- Equity capital before earnings	**7'638**	6'297	+21.29
- Earnings	**1'687**	1'583	+6.63
Non-life insurers			
- Equity capital before earnings	**19'464**	17'866	+8.94
- Earnings	**4'441**	2'510	+76.93
Total of equity capital for life and non-life insurers	**33'230**	**28'256**	**+17.60**

The equity capital base of both life and non-life insurers again improved significantly in the reporting year. The anticipated distribution quota (dividend) is 22.98% for life insurers (effective distribution in the previous year: 21.43%) and 48.11% for non-life insurers (effective distribution in the previous year: 29.36%). The distribution quota for non-life insurers in the reporting year contains an exceptional dividend of one company, without which the distribution quota would be 18.84% instead of 48.11%.

* Equity capital resources are the determinative value in assessing the solvency of an insurance company. The higher the capital resources, the more risks an insurance company can assume. In an exceptional catastrophic case, the survival of the company largely depends on its own resources. While the relation between equity and borrowed capital is of considerable interest in the industrial sector, the relation between own resources and risks on the asset and liability side of the balance sheet is of foremost importance in the insurance sector.
The solvency margin of an insurance company covers a part of the enterprise risks and is intended to secure the survival of the enterprise in an exceptional claims year. This general measure is determined by a prescribed model calculation and is based on the standards applicable in the EU. The entire amount of the solvency margin must be covered by equity capital or borrowed capital with the character of equity capital. If this requirement is no longer met, the supervisory authority intervenes. Along with tied assets, the solvency ratio provides an additional protection of the policyholders from the insolvency of the company.
The new supervision legislation requires that the calculation of the equity capital resources by means of the rigid EU solvency margin model be supplemented by the Swiss Solvency Test (SST). In 2006, already the third SST trial run was conducted. The SST is based on an economic approach and encompasses all significant quantifiable risks. The supervisory authority can therefore employ the SST as a useful early warning system for purposes of identifying additional capital requirements early on.

Available solvency margin Life and non-life insurers (figures in billion CHF)	Life insurers	Non-life insurers
Available solvency margin	**28.2**	**25.9**
Required solvency margin	**11.3**	**7.8**
Solvency ratio in the reporting year	**251%**	**333%**
Solvency ratio in the previous year	**247%**	**323%**

Insurance companies must cover the required solvency margin with allowable equity capital (available solvency margin) at all times. This primarily includes the equity capital elements reported in the statutory account statement. Also included are so-called valuation reserves on the assets or liabilities side (with the exception of technical provisions and fixed-interest securities). Hidden reserves on fixed-interest securities are now only allowable in the framework of article 216, paragraph 3 of the transitional provisions for the Supervision Ordinance. Finally, hybrid borrowed capital positions may also be allowable under certain circumstances. If the required minimum cover is reached, the rule applies that the insurance companies are free to have additional or even all possible equity capital elements taken into account.

The declared solvency ratios are again in part significantly greater than the values of the previous year. This confirms the trend toward an improved equity capital base.

Some non-life insurers with very high solvency ratios are insurance undertakings that are still building up their business or that self-insure certain group risks as part of a group.

*4.9 Tied assets**

Tied assets (figures in billion CHF)	Life insurers	Non-life insurers
Cover values of tied assets on 31.12.2006	222.3	48.0
Target amount of the safety fund / tied assets on 31.12.2006	212.3	39.9
Excess cover margin in the reporting year	**10.0**	**8.2**
Excess cover margin in the previous year	**10.4**	**9.1**

* The capital investments in tied assets must at all times cover the technical provisions (obligations vis-à-vis insured parties). Their custody is subject to special legal requirements. In the event of bankruptcy of a direct insurer, the insured parties thereby receive a liability substrate ensuring that their claims will be satisfied before the claims of all other creditors. The relevant regulatory provisions can be found in the „Investment directives“ on our website www.bpv.admin.ch under Topics / Financial Investments. The principles of security, profitability, diversification, and liquidity rank higher than all other provisions in this regard. A safety margin of 1% (4% in the case of non-life insurers, but at least CHF 100,000) is levied on the total amount of the technical provisions. Deficient cover of the tied assets is already reached when the target amount (technical provisions + safety margin) is no longer completely covered. The insurance undertaking is then required to remedy the deficient cover immediately.

4.10 Stress test

The figures obtained for this market overview represent a snapshot of the reporting date and are therefore static. Accordingly, FOPI wanted to find out from the life and non-life insurers how certain negative events would affect the solvency ratio. For this purpose, the insurance companies were asked to expose their solvency ratios to the following three predefined scenarios:

a) Reduction of the market value of the share and alternative investment portfolios by 20%, with no change to the interest rate level.
b) Increase of the interest rate level by 1%, with no change to the value of the share and alternative investment portfolios.
c) Reduction of the market value of the share and alternative investment portfolios by 20% and simultaneous increase of the interest rate level by 1%.

The effects on the solvency ratio were to be shown for all three scenarios, and the calculation was to be adjusted for any hedge transactions.

The three scenarios would have affected the solvency ratios as follows:

Stresstest

	Life insurers	Non-life insurers
Solvency ratio before scenarios	251%	333%
Solvency ratio after scenario a)	196%	312%
Solvency ratio after scenario b)	230%	308%
Solvency ratio after scenario c)	175%	287%

As already mentioned elsewhere in this market report, insurance undertakings are not required to include all allowable hidden reserves in the calculation of the solvency ratio, as long as minimum cover is available. Especially in the case of non-life insurers, the existing valuation reserves that are not allowable with respect to the available solvency margin (before the scenarios) entail that the effects of the scenarios do not fully impact the solvency ratio, but are rather partially buffered.

Life insurers, which have a relatively high amount of affected assets in comparison with non-life insurers and which generally maintain a relatively small equity capital base, are affected comparatively more strongly by the scenarios.

5. Supervised enterprises insurers

Type of insurance undertaking	No. of IU on 1.1.2006	Δ	New licences	Released from supervision	No. of IU on 31.12.2006
Swiss :					
Life	23			[a]	23
Non-life	78				78
Re	23	+2	Crip 20.12.2006 Paris Re 20.12.2006 Flagstone Re 20.12.2006	SCG Rück 17.2.2006	25
Captives	49	-4		Sesapro 31.1.2006 Guarantee Re 24.5.2006 Geting Re 20.12.2006 Glass Re 20.12.2006	45
Life branches: European Union					
British	1				1
French	2				2
Luxembourgian	-	+1	Lombard International 4.8.2006		1
Non-life branches: European Union					
Belgian	4	-1		ACE [b]	3
British	10	+1	ACE [b]		11
Danish	1				1
German	8	-1		Atradius (ex Gerling NCM Speziale) 5.6.2006	7
French	4				4
Irish	2	+1	Max Europe 5.7.2006		3
Luxembourgian	1				1
Dutch	1				1
Austrian	-	+1	Garant 23.1.2006		1
Swedish	2				2
Spanish	2				2
European Economic Area					
Norwegian	1				1
Commonwealth and overseas					
Guernsey	2				2
Bermudas	1				1
Subtotal of insurers	*215*				*215*
Health insurance schemes	49	-2		Accorda, filed for bankruptcy 7.3.2006 Sana24 12.5.2006	47
Total insurers + health insurance schemes	**264**	**-2**			**262**

[a] Genevoise Vie transferred its policyholder collective to Zurich Life and is expected to be released from our supervision in 2007

[b] Addendum: ACE European Group has been a branch of a British (formerly Belgian) parent company since 7.3.2005

Insurance groups and conglomerates directed from Switzerland

1. Groups and conglomerates
The ISA distinguishes between insurance groups and insurance conglomerates. According to article 64 ISA, an insurance group is formed by two or more undertakings if at least one of the undertakings is an insurance undertaking, if the group as a whole is primarily active in the insurance sector, and if the undertakings constitute an economic unit or are otherwise linked to each other by way of influence or control.
According to article 72 ISA, an insurance conglomerate is formed by two or more undertakings if at least one of the undertakings is an insurance undertaking, if at least one of the undertakings is a bank or securities dealer of substantial economic importance, if the conglomerate as a whole is primarily active in the insurance sector, and if the undertakings constitute an economic unit or are otherwise linked to each other by way of influence or control.

2. Solvency I and SST
A key element of group-wide supervision is the monitoring of equity capital resources, i.e. solvency, at the level of the group or conglomerate. So that the calculation is performed in a uniform manner, FOPI has issued a directive on Solvency I. The provisions concerning the required solvency margin in the insurance sector are closely based on the provisions of Swiss individual supervision and the relevant EU directives. In the financial sector, the rules of banking supervision law are used. The sum of the requirements in the insurance and financial sector is juxtaposed with the existing or allowable equity capital of the entire undertaking.

All nine of the groups and conglomerates placed under supervision meet the specified minimum requirements of Solvency I. The solvency ratio* at the end of 2006 fell within the following range:

Solvency ratio	< 150%	150% – 200%	> 200%
Number of groups	0	4	5

This ratio fails to take account of the risk profile of the individual groups and conglomerates sufficiently. In close cooperation with FOPI, these insurance groups and conglomerates are now undertaking to adjust their internal risk-based models to the requirements of the Swiss Solvency Test, SST (Solvency II). For a risk-based perspective, the conglomerates must, in addition to the risks in the insurance sector, also take the risks of the banking sector (Basel II) into account. The total required equity capital (target capital) is juxtaposed with the allowable equity capital (risk-bearing capital) of the group or conglomerate.

* Quotient of the allowable equity capital and the solvency requirements

3. Indicators*

The following table shows the most important indicators of the supervised groups and conglomerates. For the conglomerates, the size of the financial sector is represented by a ratio. This ratio is calculated by dividing the balance sheet total of the financial sector (banks, securities dealers, and companies serving this sector) by the balance sheet total of the entire conglomerate.

Conglomerates

	Bâloise		Swiss Life		Swiss Re		ZFS	
(figures in million CHF)	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Gross premiums **								
• Non-life	**3'065**	3'055	**631**	909	**19'152**	18'336	**42'828**	41'549
• Life	**3'651**	3'784	**21'433**	19'302	**12'644**	11'113	**12'848**	13'105
Balance sheet total	**63'936**	61'219	**186'950**	177'597	**291'300**	221'299	**455'729**	446'046
Equity capital	**4'987**	4'391	**7'851**	7'953	**30'884**	24'393	**32'981**	30'523
Return on equity	**15.3%**	10.3%	**12.2%**	12.3%	**16.3%**	10.3%	**19.0%**	15.5%
Financial sector	**9.2%**	9.5%	**7.2%**	9.0%	**n.a.**	n.a.	**2.6%**	2.2%
Profit **after** taxes	**707**	404	**954**	874	**4'560**	2'304	**5'673**	3'998

Groups

	Helvetia		Mobiliar		National		Vaudoise		Winterthur	
(figures in million CHF)	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Gross premiums **										
• Non-life	**2'423**	2'387	**2'023**	1'953	**1'226**	1'195	**680**	599	**8'907**	8'726
• Life	**2'832**	2'790	**674**	656	**509**	535	**1'187**	1'357	**13'103**	12'221
Balance sheet total	**31'810**	30'645	**13'384**	12'856	**7'304**	7'052	**8'035**	6'936	**186'362**	178'722
Equity capital	**2'738**	2'481	**2'524**	2'201	**650**	559	**443**	390	**10'080**	9'694
Return on equity	**16.2%**	13.4%	**13.1%**	13.5%	**10.5%**	4.4%	**10.8%**	12.3%	**14.4%**	11.7%
Profit **after** taxes	**424**	302	**309**	272	**64**	24	**45**	44	**1'419**	1'068

** including reinsurance

* Swiss Re has switched its accounting from Swiss GAAP FER to US GAAP as of its 2006 business report.

4. Balance sheet total by region

The following table shows the balance sheet total for 2006 of the groups and conglomerates, broken down by region.

Balance sheet total by region, worldwide

(figures in million CHF)	Bâloise	Helvetia	Mobiliar	National	Swiss Life	Swiss Re**	Vaudoise	Winterthur	ZFS
Switzerland	34'292	23'383	13'384	5'875	89'617	n.a.	5'311	71'939	27'920
Benelux	6'590	1	-	357	27'858	n.a.	-	13'094	865
Germany	19'571	2'788	-	76	21'826	n.a.	-	49'246	72'177
France	-	180	-	267	46'029	n.a.	-	-	23
Southern Europe*	-	3'407	-	729	643	n.a.	-	9'070	26'640
UK	-	7	-	-	-	n.a.	-	27'485	168'280
Rest of Europe	3'483	2'044	-	-	977	n.a.	2'724	5'257	20'296
Europe total	**63'936**	**31'810**	**13'384**	**7'304**	**186'950**	**n.a.**	**8'035**	**176'091**	**316'201**
USA	-	-	-	-	-	n.a.	-	4'516	111'940
Rest of world	-	-	-	-	-	n.a.	-	5'755	27'588
Total	**63'936**	**31'810**	**13'384**	**7'304**	**186'950**	**291'300**	**8'035**	**186'362**	**455'729**

* Italy, Spain, Portugal

** Breakdown of balance sheet total by region not reported

5. Capital investment positions

The following table shows the breakdown of capital investments as of the end of 2006 for the most important investment categories. All groups and conglomerates have increased their percentage of shares relative to the preceding years. These capital investments only include the assets that have been invested at own risk. They do not include capital investments invested at the client's risk, i.e. in particular contributions from unit-linked life insurance and other unitlinked products.

Capital investment positions

(figures in million CHF)	Bâloise	Helvetia	Mobiliar	National	Swiss Life	Swiss Re	Vaudoise	Winterthur	ZFS
Shares	6'046	2'049	1'612	766	13'002	13'200	253	13'186	22'355
Holdings	175	46	87	20	75	n.a.	13	798	187
Bonds	22'894	14'732	6'610	3'457	91'945	129'300	2'330	89'371	154'124
Real estate	5'313	3'890	962	1'620	11'809	3'300	784	8'535	8'437
Mortgages	9'942	3'094	470	437	8'342	n.a.	167	10'328	13'173
Loans	7'860	1'951	530	4	20'541	n.a.	1'138	6'117	15'401
Other	4'250	3'166	167	162	14'962	16'800	383	2'332	24'853
Total	**56'480**	**28'928**	**10'438**	**6'466**	**160'676**	**162'600**	**5'068**	**130'667**	**238'530**

Capital investment positions

(in %)	Bâloise	Helvetia	Mobiliar	National	Swiss Life	Swiss Re	Vaudoise	Winterthur	ZFS
Shares	10.7%	7.1%	15.4%	11.8%	8.1%	8.1%	5.0%	10.1%	9.4%
Holdings	0.3%	0.2%	0.8%	0.3%	0.0%	n.a.	0.3%	0.6%	0.1%
Bonds	40.5%	50.9%	63.3%	53.5%	57.2%	79.5%	46.0%	68.4%	64.6%
Real estate	9.4%	13.4%	9.2%	25.1%	7.3%	2.0%	15.5%	6.5%	3.5%
Mortgages	17.6%	10.7%	4.5%	6.8%	5.2%	n.a.	3.3%	7.9%	5.5%
Loans	13.9%	6.7%	5.1%	0.1%	12.8%	n.a.	22.5%	4.7%	6.5%
Other	7.5%	10.9%	1.6%	2.5%	9.3%	10.3%	7.6%	1.8%	10.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**