



FOPI Media Conference

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Part 1: Point of Departure

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

Ladies and Gentlemen

The demands on insurance supervision are constantly changing: In the 2006 reporting year, the financial markets have recovered further, and most of the supervised insurance undertakings want to grow. Due to cross-border transactions, new players are entering the Swiss insurance market or are strengthening their existing position, and Swiss groups are expanding their foreign activities. The risk landscape is also on the move: Climate changes lead to expectations of economic shifts, and demographic changes demand urgent responses.

In 2006, the Federal Office of Private Insurance FOPI again successfully addressed this transformation process under my predecessor Herbert Lüthy and with a staff of now 90 employees by further developing innovative instruments: New instruments such as the Swiss Solvency Test (SST) have been developed, which have been incorporated into a new Insurance Supervision Act (ISA). These are the important results on the first stage of the path toward modern insurance supervision. Today, we will provide you with insight on the status of work in various areas.

Integration at three levels

The aforementioned transformation process has not yet been concluded, neither for supervision, nor for the supervised insurance industry. Today, we would therefore like to outline the further path that we have now initiated: This is the path toward integrated insurance supervision, which will lead to a set of insurance tools that are modular and transparent and that can be operated in a more flexible manner. We are facing a threefold integration in this regard, namely:

- Integration at the conceptive level of supervision
- Integration at the level of international cooperation between supervisory authorities
- Integration into the future Financial Market Supervisory Authority FINMA.

The progressive integration at the three aforementioned levels permits a further advancement of the protection of insured parties from the insolvency risks of insurance undertakings and abuses on the basis of a forward-looking, competent, and professional working method. The implementation of this legislative mandate is subject to independent

decision-making, proper judgment, and transparency. Guided by an internal code of conduct, all FOPI staff members vouch for integrity in their supervision activities.

We will be happy to present you with examples of Integrated Supervision. First, however, I will outline the most important events of the reporting year, namely the economic indicators, the entry into law of the new Insurance Supervision Act, and the events that have substantially changed the Swiss insurance market.

The insurance market in the reporting year

The most important conclusion with respect to the Swiss insurance market: The period that the insurance industry has travelled in the last years – after the turbulence of 2001 and 2002 – is characterized by a recovery of the entire sector. A look at the 2006 reporting year clearly shows that this trend continues. The most important results for insurance companies domiciled in Switzerland, their branches abroad, and the branches of foreign insurers working in Switzerland are:

- The reported own funds of the insurance companies have increased by an average of 17.6% in non-life and life insurance relative to the previous period.
- The premium volume in non-life insurance has grown slightly by 2.84%, while the premium volume in life insurance has decreased by 3.57% relative to the previous period.
- In comparison with the previous year, non-life insurers benefited from a more favourable claims development, which manifested itself in a lower claims ratio of 64.02% on average (previous year: 74.46%) and a lower combined ratio with an average value of 90.12% (99.32%).
- The generally good condition of the financial markets is reflected in a financial result for non-life insurers that is 17.36% higher. For life insurers, on the other hand, the financial result decreased by 6.3% in comparison with the previous year.

Modern insurance supervision

The new supervision law entered into force the beginning of 2006. A modern insurance supervision law has thus become operational in Switzerland that follows paths in many areas which, while considered desirable internationally as well, have so far only been partially implemented 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 with traditional supervision instruments. The expansion of international cooperation opens up additional perspectives.

Through the enactment and entry into law of approximately 20 directives, FOPI has advanced the aforementioned further specification of supervision law in the areas of corporate responsibility, responsible actuary, auditing, and groups and conglomerates. Other directives will follow where necessary. In the second part of the media conference, we will discuss the further specification in the categories of tied assets and occupational pensions in more detail.

International impact in a dynamic environment

With the further specification of supervision law and integrated insurance supervision, Switzerland is 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 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.

When reviewing acquisitions and participations, FOPI must ensure, in accordance with the ISA, that the transaction does not endanger the interests of insured parties. In addition, changes to the business plan, especially relating to corporate governance, must be evaluated. If the demands are not met, FOPI may prohibit the participation or attach conditions.

On this basis, the planned participation of the French SCOR Group in Converium Holding AG was also subjected to an in-depth review. From the perspective of the protection of insured parties, FOPI does not have any objections to the planned participation of the French SCOR Group in Converium Holding AG, which will lead to an indirect capital holding of more than 20% in Converium AG. However, FOPI will only comment on the crossing of the next higher participation thresholds of 33% and 50% of the capital once the preconditions for making this decision are met.

After this broad survey of the most important events in the 2006 reporting year, we shall proceed to the topic of "Integrated Supervision".

Integrated supervision as the next milestone

For us to approach the challenges facing insurance supervision in an optimal manner – such as the changing market behaviour of the insurance industry, new risks, or the effects of global financial markets – the task will be to conceive the proper setup for the supervision of tomorrow. The best approach is not solely to react to the challenges by expanding the supervisory authority. Rather, it will be crucial to develop a modular supervision architecture that allows us to address the questions that arise in a manner appropriate to the task at hand, and to administer these questions with mutually harmonized tools.

The goal of the "Integrated Insurance Supervision" project is to consolidate the individual instruments into a modern, integrated overall concept that responds to the challenges of the insurance sector and at the same time strengthens the protection of insured parties. Moreover, this concept serves to optimize the handling of internal interfaces between the various tools, so that the effectiveness of the Office can be further improved and efficient, coherent supervision can be implemented in relation to the entities subject to supervision. Thus, we want to make use of the added value of the various instruments in an optimal and integrated way, eliminating anything superfluous.

It is important that these instruments link up with each other seamlessly over time, and that they can be applied in an integral way by staff members and also the participating industry. We would also like to achieve a similarly consolidated picture with respect to the results of qualitative supervision. This includes the effect of the new transparency requirements.

Manfred Hüsler, responsible Head of the Life and Health divisions, will speak about this aspect in more detail in the part on Occupational Pensions.

SST and tied assets

The SST is an essential component of modern integrated supervision. It reflects the economic situation of an insurance company. On the basis of a market-consistent valuation of the assets and liabilities of an undertaking, the SST model leads to the determination of the capital requirements, the so-called target capital. The own funds available for covering the target capital (risk-bearing capital) are also determined on the basis of a market-consistent valuation. René Schnieper, who has served as the new Head of the Supervisory Development division since 1 April 2007, will provide you with further information in this regard.

Just as crucial as the capital requirements is the immediate protection of policyholder interests by covering the technical provisions with the tied assets. Markus Geissbühler, Head of the Financial Accounting and Financial Investments division, will subsequently illustrate the system of tied assets and present the new investment directives.