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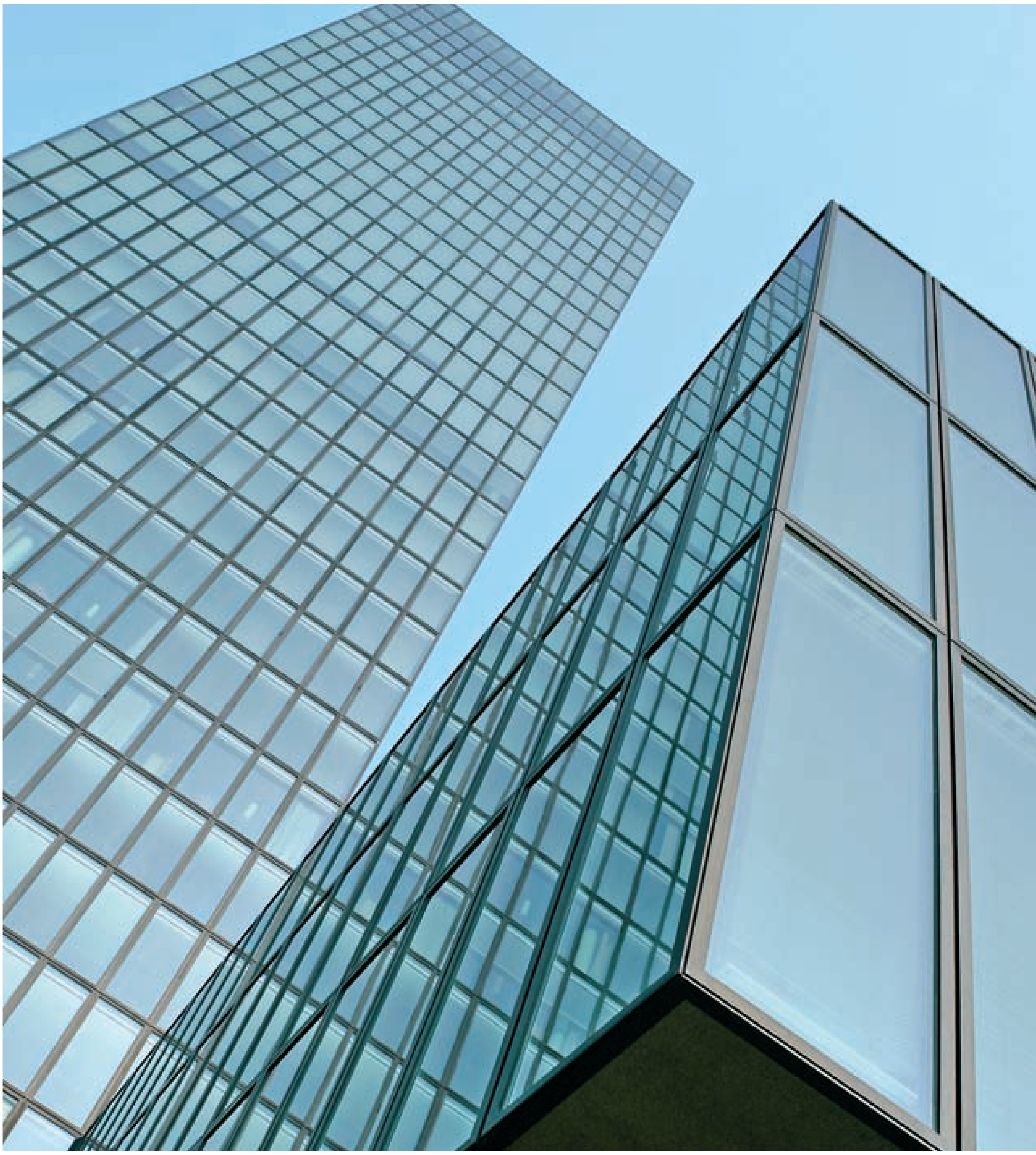
Annual report



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Federal Department of Finance FDF
Federal Office of Private Insurance FOPI

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Insurance supervision

Rigorous implementation of integrated insurance supervision continues as response to crisis in the financial markets

The turbulence on the financial markets has continued to intensify since late summer 2007. Whereas initially the main focus was on specific classes of assets such as subprime mortgages and related securitised instruments, concerns subsequently shifted as a result of a credit crunch and free-falling prices of shares, corporate bonds and alternative investments, which sparked major losses.

Through globalisation and the interdependence of the international financial markets, the crisis has since spread to the entire global economy. The first to be affected were major banks with operations across the globe, but it did not take long for the tangible effects of the financial crisis to be felt by insurers and, ultimately, all sectors of the economy.

Introduction by Monica Mächler, Director of FOPI

Situation not the same as in the 2001/2002 crisis: a new set of challenges

In the insurance crisis of 2001/2002, many insurers were forced to take measures to offset cash flow underwriting and investments made in the New Economy over prior years. As a consequence, several insurers built up capital after 2002 in a bid to strengthen their capital bases and, thus, their ability to better absorb market fluctuations in asset values. In addition, they significantly reduced risks, partly by carrying smaller equity portions in their overall portfolios. Many realigned their business activities, focused on profitable underwriting and tightened governance and company risk management processes.
In the current crisis, insurers have primarily been affected in their role as investors. Since they have to invest premiums, they are exposed to both market and credit risks. The interest rate situation, too, has a direct, significant impact on insurance firms. It is also a fact that insurance groups with activities in the area of capital market business are exposed to the risks of those markets.

Solvency I and tied assets continue to be covered

Against this backdrop, FOPI monitored market movements on an intensive, ongoing basis and, as of mid-2007, stepped up the frequency with which it assesses market repercussions on insurers. The initial focus of these assessments was investments in special asset classes, but, from the beginning of 2008, it has shifted to Solvency I, tied assets and additional issues involving assets and related value-adjustment requirements.
From the early toxic investment fallout, insurers – in particular direct insurers domiciled in Switzerland – have been much less affected than banks, since they had not invested in subprime or related assets to any significant extent. Overall, only one percent of the tied assets of direct insurers covering insured parties' claims were affected. Now, however, practically all assets are exposed to negative developments in the capital markets, with a corresponding impact on insurers as major investors.
On the basis of the data they submitted in response to several FOPI surveys, the insurance companies and insurance groups subject to supervision in Switzerland continue to meet solvency requirements, even as of the last survey dated 30 November 2008, and are in a position to cover their tied assets. They expected no change in this situation as per the end of the year, subject to any exceptional developments.

Transformation process in insurance

In light of the difficult situation in the markets, insurers, too, will be called upon to review their strategies for the short, medium and long term. They will have to reflect on issues such as underwriting and cost-cutting strategies and will be forced to keep an eye on their capital situations. The current economic crisis finds the insurance industry at an already advanced stage of a transformation process. Over the past few years, many insurers have placed considerable emphasis on growth, and these growth strategies will probably now be scaled back. Capital requirements will increase sharply in future, but it should be noted that available capital is set to rise, too. This will be the result of the complete introduction of the Swiss Solvency Test (SST) as per 1 January 2011 as well as analogous Europe-wide Solvency II regulations.

Also of fundamental importance is the extent to which large insurance groups will be involved in capital market business. If it becomes a major activity, the specific risks it produces could jeopardise actual insurance business itself. A question that will have to be addressed is under what conditions can risks which have a completely different profile from insurance risks be carried within the same group, or even whether certain activities might have to be discontinued entirely.

Calls for regulatory review: concept of Swiss insurance supervision

In light of these developments, the question at the international and national level for various financial market activities is whether, in their current form, the regulations in place are the right ones. It should be noted that this question has to be answered separately for each sector and each set of regulations.

Insurance regulation in Switzerland has undergone long-term oriented changes since 2002. The foundation for modern insurance supervision was laid by the new Insurance Supervision Act, which entered into force in 2006. A particularly noteworthy element in this legislation is the risk-weighted economic capital model of the SST, which is today at a very advanced stage of implementation. The guidelines for the SST were developed and implemented in 2008. These guidelines set out the basis for determining risk-bearing capital and target capital for individual companies and groups and the corresponding procedural regulations. The focus on qualitative elements of supervision was similarly reinforced. Along with elements such as corporate governance and risk management, these include internal and external auditing, asset investment processes, the appointed actuary etc. The regulations are based largely on the formulation of action goals which the individual insurance companies must then implement. Swiss Quality Assessments are instruments which were developed in order to help the supervisory authorities to better follow company-specific implementation and, where necessary, to require further action. The last few years of FOPI's activities have thus been marked by significant change and innovation.

The development and introduction of the SST and qualitative supervision, underpinned by the new Insurance Supervision Act, represent pioneering advances which have Europe-wide significance and are also of note beyond Europe. At the same time and in combination with the tried-and-tested traditional supervisory instruments such as Solvency I, technical provisions and tied assets, FOPI has continued to place a premium on continuity and consistency at all times. The product of these two poles has been the concept of integrated supervision and, with it, the recognition that a holistic approach is required if the at times extremely diverse risks of the financial market are to be adequately dealt with.

This development in Switzerland's insurance supervisory landscape has been reinforced by an intensive level of activity internationally, in respect both of individual supervision and the further development of standard-setting in multinational and bilateral contexts. With regard to supervisory cooperation, FOPI called worldwide Supervisory Colleges for the two biggest insurance groups managed out of Switzerland in June 2008 and held sessions at the end of the year. These Colleges enhance the interaction between supervisory authorities that has been taking place for years for supervising insurance groups active in Europe. FOPI plays an active role at various levels in the activities of the OECD and the International Association of Insurance Supervisors (IAIS), a standard-setter in the area of insurance. In addition, the exchange of views and experiences is fostered at the regional and bilateral levels.

Confirmation of integrated insurance supervision in 2008: a variety of methods used

Applying a range of methods opens up valuable perspectives for supervision, particularly in times of crisis or unstable markets. A plurality of methods provides regulators with an all-round view, in terms of both the companies supervised and the insurance industry as a whole, and thus reinforces the security of the system.

In relation to the subprime crisis, FOPI had already pointed out that it would not have been possible to causally identify the risks involved, such as model, concentration and liquidity risks, on the basis of the quantitative SST model alone. It is vital, therefore, that the SST is combined with elements of qualitative supervision based on further-reaching, forward-looking action requirements. Combined with effective risk management, insurers are better positioned, with SST or equivalent solvency testing models, to identify early on risks such as subprime risks or future exposures and to contain them appropriately.

Supervision is only complete, therefore, when there are instruments in place which first and foremost allow those supervised to themselves come to the correct realisations and, where necessary, change their approach. This is done via an iterative process based on assessments carried out by those supervised and the supervisory body. Such processes must be firmly rooted in corporate realities and underpinned by a culture of corporate responsibility.

Insurance supervision – a topic of major importance long before 2008

„Insurance supervision and its evolution have been and continue to be reactions to developments on a market in which the self-healing powers of competition are not always efficacious." This is how, in a section of the 2007 FOPI Annual Report entitled „The path to modern insurance supervision", Kurt Schneiter described the creation of insurance supervision in 1886 – a truly fitting description, particularly in light of the current situation on the financial markets and the role to be played by supervision in such a context. In a statement delivered in connection with the first Insurance Supervision Act, the Federal Council also touched on the limited self-healing powers of the market, explaining that, „even if supervision is a major responsibility for the government, it is no less major than the responsibility it would bear in the event of a catastrophe – a catastrophe which the government, while incapable of preventing, might have lessened had it exercised as much supervision as the nature of the matter would have permitted." This again highlights the limited self-healing capacity of the market.

These supervisory purposes will remain highly topical, especially in the transition to the new integrated Swiss Financial Market Supervisory Authority FINMA, which will be fully operational by the time this Annual Report is published.

Challenges for the future

The current crisis makes it abundantly clear how important it is to identify early on developments which may be significant in the longer term. The integrated approach combining the traditional, quantitative and qualitative elements of supervision offers a good basis for this: thanks to the use of a variety of methods, the supervisory authority can observe the market and its developments from various angles. Too absolute a reliance on one approach or model alone can create over-dependency, particularly if this model is used for all economic cycles and, at the same time, applied by all other market participants.

The concept of integrated supervision based on the new Insurance Supervision Act and launched in 2007 thus received important validation in 2008 and was developed further. Valuable experience was gained as the new supervisory instruments were put into practice. It can thus be said that this concept forms the right platform for further rigorous implementation and for further improvement where necessary.

FOPI in brief

Until 31 December 2008, the Federal Office of Private Insurance (FOPI) was an independent federal office. It has now been integrated into the Swiss Financial Market Supervisory Authority (FINMA). FINMA has taken over all the activities of FOPI set out herein.
FOPI supervised insurance undertakings operating in the non-life, life and reinsurance sectors as well as insurance intermediaries. The supervisory activities of the insurance supervisory authority centre around protecting insured parties against the risk of insurance undertakings becoming insolvent and against abusive practices.
FOPI issued business licences and performed a risk-weighted audit of active business with regard to financial and qualitative aspects. Where necessary, it intervened in the event of abusive practices and took the protective measures required. FOPI also approved insurance products in collective life and supplementary health insurance, and carried out the related monitoring activities.
In addition, FOPI contributed to the drafting of legislative bases and international agreements in connection with private insurance. It became part of the Federal Department of Finance on 1 July 2003.

Director (until 31 December 2008)
Monica Mächler

General Management (until 31 December 2008)
Hans-Peter Gschwind, Deputy Director
Manfred Hüsler, Vice Director
Heinz Schweizer, Vice Director
René Schnieper,
Member of the General Management
Michael Mayer,
Member of the General Management

Staff (as at 31 December 2008)

Total staff members:	112 (01.01.2008: 104)
Full-time positions:	85.40
Temporary staff members:	21 (12.60 full-time equivalent)
Exits 2008:	22, including 4 retirements

Staff was composed of a broad range of specialists working together on an interdisciplinary basis. Staff members included lawyers, mathematicians, physicists, actuaries, economists, business economists, accounting and investment specialists, social scientists and other experts.

Supervised undertakings (as of 31.12.2008)

Type of insurance undertaking	Insurance undertakings domiciled in Switzerland*	Branches of foreign insurance undertakings*	Total*
Life insurers	22 (22)	4 (4)	26 (26)
Non-life insurers	79 (78)	43 (39)	122 (117)
Reinsurers	28 (25)	-	28 (25)
Captives	42 (46)	-	42 (46)
Subtotal	**171 (171)**	**47 (43)**	**218 (214)**
Health insurance schemes offering supplementary health insurance	44 (46)	-	44 (46)
Total of supervised insurance undertakings and health insurance schemes	**215 (217)**	**47 (43)**	**262 (260)**

* Statistics 2007 in parentheses

FINMA

On 1 January 2009 the Swiss Federal Banking Commission, the Federal Office of Private Insurance and the Anti-Money Laundering Control Authority were merged to form the Swiss Financial Market Supervisory Authority (FINMA). This means that state supervision of banks, insurance companies, stock exchanges, securities dealers and other financial intermediaries has now been brought under one roof.

Legal basis
The legal basis for the new integrated supervisory authority is the Federal Act on the Swiss Financial Market Supervisory Authority (FINMASA), which was approved by parliament on 22 June 2007.

Profile
As an independent supervisory authority, FINMA protects the clients of financial markets, namely creditors, investors and insured persons, thereby strengthening confidence in the smooth functioning, integrity and competitiveness of Switzerland's financial centre.

Organisation
FINMA has been structured as a public law institution with its own legal identity that has functional, institutional and financial independence. As an autonomous authority it is no longer part of the central federal administration but a legally independent organisation with separate powers. It is financed entirely by the fees and charges levied on the institutions it supervises. FINMA has a modern organisational structure with a Board of Directors, Management Board and audit unit. The Board of Directors is FINMA's strategic body and therefore takes responsibility for strategy development, makes judgments on matters of substantial importance, issues the ordinances delegated to FINMA, decides on circulars and also oversees the Management Board, while itself being responsible for the overall management of FINMA.

Partial entry into force
The partial entry into force of FINMASA's organisational provisions on 1 February 2008 gave FINMA its own legal identity, making it independently responsible for implementing the necessary steps for its further development.

Board of Directors
At the same time as the partial entry into force of FINMASA on 1 February 2008, the Federal Council appointed seven members to FINMA's Board of Directors. The Board of Directors is chaired by Eugen Haltiner (formerly Chairman of the Banking Commission). The committee was subsequently expanded to nine members as of 1 January 2009 in line with a Federal Council Decree of 21 May 2008. Exceptionally, two vice-chairmen have been appointed for the period of office between 2009 and the end of 2011.

Director and Management Board
The Board of Directors appoints the director, subject to the approval of the Federal Council. In order to identify a suitable individual for the challenging role of director of FINMA, a recruitment process for the position was launched with a public advertisement in December 2007. The Board of Directors made its decision on 8 May 2008 and appointed Patrick Raaflaub as Director. The Federal Council approved this appointment at its meeting of 21 May 2008. The recruitment process at FINMA Management Board level began at the start of March 2008. The Board of Directors appointed the members of the Management Board on 8 May 2008. Federal Council approval was not required.

Recruitment process
Once the director and the Management Board had been appointed, the internal recruitment process began. All posts were advertised internally, and the FINMA employment contracts were issued in the fourth quarter of 2008.

Project work
The Board of Directors monitored the implementation work carried out during the development phase leading up to the operational launch of FINMA and took any decisions that were required. For example, the Board of Directors defined the primary management level of the organisational structure. It is made up of the Large Banking Groups, Banks/Financial Intermediaries, Integrated Insurance Supervision, Insurance/Sectors, Markets, Legal/Enforcement/International and Services domains. The departments within the individual domains were defined in consultation with the FINMA Management Board. The Board of Directors also approved the Organisational and Business Regulations, the Code of Conduct, the HR directives and the 2009 budget. The balancing act required to combine the project work with day-to-day supervisory activities in the three former authorities presented a particular challenge. Managing the interfaces and coordinating the content and timeframes of the various projects was a very demanding task, which is why the process was closely monitored under the stewardship of the Chairman of the Board of Directors.

Project costs
The three merging authorities contributed a total of CHF 3.5 million in 2008, in proportions relative to their size, to cover project costs. The project costs were at the level envisaged. The Finance Administration loaned FINMA an additional CHF 7.5 million for preliminary investments. These were largely in the area of IT.

Personnel regulations
Under Art. 13 para. 1 FINMASA, FINMA employs its staff under public law. The legislator has authorised FINMA to issue its own personnel regulations. Under Art. 13 para. 2 FINMASA, the Board of Directors sets out the employment relationship in an ordinance that was approved by the Federal Council on 27 August 2008. The Board of Directors designed the FINMA staff ordinance to have a stronger focus on performance compared to the Federal Administration, coupled with flexibility in terms of remuneration.

FINMASA executing ordinances
The Federal Council issued two implementing ordinances relating to FINMASA that entered into force on 1 January 2009. These are the ordinance governing the levying of fees and charges by FINMA and the financial market audit ordinance. Fees and charges are largely based on the previously applicable fee arrangements of the Banking Commission, the Federal Office of Private Insurance and the Anti-Money Laundering Control Authority. FINMA's finance and accounting unit seeks to allocate costs by applying the „originator pays" principle wherever possible. The financial market audit ordinance groups together the provisions governing financial market auditing in a single ordinance.

Operational launch of FINMA
With the full entry into force of FINMASA on 1 January 2009, FINMA took over operational supervisory activities at the existing locations of the three merging authorities. The move to a joint FINMA location at Einsteinstrasse in Bern is scheduled for the second quarter of 2009.

Main Issues 2008

Solvency

The impact of the financial crisis on insurance

In spite of the massive disruptions in the international financial markets, the insurance undertakings and insurance groups subject to supervision in Switzerland continued to meet statutory solvency requirements as at 30 November 2008. At this time, they were also in a position to furnish the tied assets required by law. Tied assets are available primarily to satisfy claims of insured persons and must be covered at all times.

The central duty of the supervisory authority is to secure the claims of insured parties; in other words, to provide solvency protection and protect insured persons against the consequences of insolvency on the part of insurance companies. Since the SST will not be fully implemented until 2011 and is therefore more suitable as a medium- to long-term control instrument, in the current situation the Swiss regulator primarily works with traditional supervision instruments such as Solvency I and tied asset surveys. Several such surveys were carried out in 2008. Based on the data reported, the insurance undertakings and insurance groups subject to supervision in Switzerland continued to satisfy Solvency I requirements, even in the turbulent second half of 2008, and were in a position to furnish their tied assets, as reconfirmed in the last surveys as at 30 September and end of November 2008.

Special legal protection for claims of insured persons

In accordance with the basis under supervisory law, each direct insurer is required to set aside tied assets to safeguard the claims that may arise from insurance policies. Tied assets thus form liability reserves for insured persons which ensure that the claims of such persons arising out of insurance contracts will be satisfied before those of any other creditors.

Capital investments in tied assets must cover the total of the technical reserve holdings plus a safety margin of 1% (4% in the non-life sector) at all times. Tied assets are already deemed to be insufficiently covered if the target amount (technical reserves and safety margin) is no longer covered in full. In such an event, the insurance undertaking is obliged to make up the shortfall immediately.

Reinsurance companies have more liberty in their decisions concerning their investments because they are not subject to the same investment regulation requirements.

Continuous monitoring focuses on repercussions of market movements

From mid-2007 on, FOPI monitored the repercussions of market movements on an intensive, ongoing basis. The investment of tied assets is subject to strict regulations in respect of risk diversification, permitted investment categories, risk management and capital investment management. Write-downs on capital investments involving tied assets are similarly monitored, but were significantly restricted in volume as a result of the investment directives from FOPI geared to value preservation and risk diversification.

Only 6% invested in equities

All investments in tied assets must be carried out in accordance with the diversification principle. An excessive focus on any one asset class is not permissible. Alternative investments (hedge funds, private equity, commodities) may only be made for diversification purposes within a particularly restricted framework. Overall, this asset class is limited to a maximum of 10% of tied assets.

In terms of tied assets as a whole, as early as at 31 December 2007, insurance undertakings invested a mere 6% in equities, 5% in alternative investments and 1% in structured products. In addition, the investment directives require a broad diversification of the counterparties with which money is placed. Insurance undertakings may invest a maximum of 5% of tied assets in one and the same borrower, and this is spread over all investment categories, such as equities, bonds, open derivative transactions, time deposits etc., on a cumulative basis. Derivate and securities lending transactions are governed by special security mechanisms, which, for example, do not permit uncovered transactions.

Changes in value of fixed income investments

Since life insurance involves a long-term investment horizon, in the valuation of fixed income investments, which in total account for 55% on average of investments involving tied assets, legislators impose the amortised cost method as a maximum limit. This means that in financial statements, bonds are recognised at cost, with the difference between this and the nominal amount being amortised over the term of the bonds.
As a result, under this valuation method, in a period of low interest rates capital gains on the bonds may not be recognised. In contrast, if interest rates or credit spreads are rising, the resulting fluctuation in value need not be stated. This leads to stable valuations of fixed income investments. In the event of any actual defaulting – as in the case of Lehman Brothers – value adjustments must be made immediately. Counterparty risk is limited through the 5% counterparty limit referred to above.

Monitoring of tied assets

Tied assets are reviewed each year in a standardised process implemented by the supervisory authorities and – via specially defined checks – by external auditors. In extraordinary circumstances, such as those witnessed over the past few months of the financial crisis, FOPI carries out additional checks of coverage requirements during the course of a year. These include stress tests, which indicate the extent to which tied assets are threatened as a result of changes in the market, such as plummeting share prices.

The lessons from the 2002 crisis

The fact that insurance was relatively stable in 2008 is due in no small part to the lessons learned by insurance companies following the crisis of 2002. Several insurers built up capital after 2002 in a bid to reinforce their capital bases and, thus, their ability to better absorb market fluctuations in asset values. They reduced risks by substantially cutting the equity weighting in the overall portfolio, and they also realigned their business, improved their processes and geared their focus to profitable underwriting.
This development was assisted by the requirements issued by FOPI in connection with the investment of tied assets: with the investment directives which entered into force on 1 January 2006 and subsequently amended with effect from 20 November 2008, risk diversification and permissible investment categories are governed by strict regulations, as are risk management and capital investment management.

Outlook

All supervisory measures are ultimately aimed at securing the claims of insured persons. Even if the crisis on the financial markets were to intensify, a range of protective measures is in place to ensure stability and, thus, security. For example, if required, an insurance undertaking can reinforce its capital base by various means, such as discontinuing dividend payments, not buying back any shares, reducing distributions of surpluses to insured parties, changing investment policy, amending new business policies or taking on less risk. In an emergency, FOPI can also order that protective measures be taken and can even arrange for a portfolio to be transferred to another insurance company; this safeguards the insurance portfolio, while the other liabilities remain in place.

Tied assets are available in full to cover the claims of insured persons. It has so far been possible to maintain this coverage on the part of the insurance undertakings despite the massive disruptions on the financial markets. However, the exceptional nature and depth of the current crisis coupled with – in particular – the lingering uncertainty as to how it will be dealt with clearly show that investments in tied assets, which until now have managed to retain their value as a whole, have also suffered a sharp drop in value.

The Solvency I requirements set out how much free and unencumbered equity capital an insurance undertaking must have based on its business volumes.

Direct insurers are required to cover their technical provisions with **tied assets**. In doing so, they must comply with investment directives which require insurance companies to apply prudent investment policies. These requirements do not apply to free assets.

Unlike direct insurers, **reinsurers** do not have to set aside tied assets or comply with any investment directives in connection with them; however, they do have to comply with the regulatory solvency requirements.

Integrated insurance supervision

Variety of methods contributes to security of the system

The concept of integrated insurance supervision launched in January 2007 was developed further in 2008. With the aim of establishing a state-of-the-art holistic concept of insurance supervision, the main focus remains the integration of traditional, quantitative and qualitative elements of supervisory activities through a harmonised approach. The benefits of integrated insurance supervision already became apparent in the year under review: the variety of methods used opens up new and valuable perspectives that can be particularly useful in times of crisis or unstable markets. A pluralism of methods provides the authorities with an all-round view in terms of both the supervised companies and the insurance industry as a whole, and thus reinforces the security of the system.

Insurance supervision has undergone substantial restructuring over the past few years. One aim of the shift in emphasis to principle- and risk-based supervision is to facilitate the monitoring of insurance and technical financial risks through the setting of action goals and the implementation of these goals.

The central feature of integrated supervision is that the areas of traditional, quantitative and qualitative supervision are built on various approaches: in traditional supervision, for example, fixed rules are applied, whereas quantitative and qualitative supervision is structured around action goals that the insurer will implement on a risk-based basis. The implementation of these goals is checked by the insurance supervisory body in an iterative process. The insurance companies assume responsibility for implementing the goals and incorporating them in their internal processes. A vital part of this is the interplay between defined rules and action goals.

Traditional supervision

Traditional supervision instruments still play an important role in the new concept. A central element supervised is tied assets, which are used to safeguard the claims of insured persons. In this context, FOPI obtained Solvency I figures from the supervised insurance companies through several surveys and was thus able to promptly track the impact of the financial crisis on the solvency margins available. The main focus was Solvency I, as, in light of the capital requirements, the Swiss Solvency Test (SST) will not be feasible until 2011. Work progressed full steam ahead in 2008 on the new web-based reporting system FIRST, which replaces the TEDAP system. FIRST was launched simultaneously with FINMA on 1 January 2009. In connection with this, special processes aimed at monitoring tied assets were also set up and assessments were systematised more intensively.

Swiss Solvency Test

Solvency

For the first time in annual Swiss solvency testing, all the 140 insurance institutions subject to SST had to take part in SST reporting. All insurance companies, insurance groups and insurance conglomerates subject to supervision in Switzerland are obliged to take part, with the exception of most reinsurance captives. Up until now, in the 2006 and 2007 field tests, the only insurance firms required to participate were those which offer life insurance and with a gross premium volume of over CHF 1 billion, as well as insurance companies which offer non-life insurance and with a gross premium volume of over CHF 0.5 billion for Swiss business.

The SST reports submitted and reviewed show that the SST ratios reported are in excess of 100% at most companies. It should be noted, however, that available capital was reported on the basis of the opening balance sheet as at 1 January 2008 and thus reflects neither the high losses suffered on equity portfolios since then nor the exceptional increase in spreads and the resultant dramatic losses on bond portfolios and other assets. These and other negative repercussions from the financial crisis will not be visible in the SST reports until 2009. Added to this is the fact that several insurance companies use internal models, most of which have not yet been subject to formal audits. The last element to note is that the reports from companies included in the SST for the first time are of mixed quality.
The SST is currently in the implementation phase. Capital requirements as set out under the SST do not have to be met until 2011.

Internal models

The audit concept for internal models was approved mid-year. This concept sets out how the supervisory authorities proceed in checking that internal models comply with requirements as part of the SST. The requirements were defined within the framework of the Ordinance on the Supervision of Private Insurance Companies as well as the SST Guideline, which entered into force at the end of November 2008. They relate to risk modelling and the organisational structuring and implementation of internal models.
Many reports for 2008 Swiss solvency testing are based on internal models or models that are partially internal. In some cases, advance surveys of compliance with the requirements on internal models were able to be carried out. In most cases, however, formal checks of insurance companies' internal models will not begin until spring 2009 and are expected to be completed by the end of 2010. Over 60 internal models used by insurance companies, insurance groups and insurance conglomerates will have to be checked. In certain cases, the use of an internal model will be required by law, and in others it will be recommended by the supervisory authorities. Companies may be obliged to use an internal model if their standard model is not capable of reflecting risks appropriately.

Collective experience with internal models confirms that the development, implementation and auditing of internal models is a process that leads to permanent improvements in both supervision and the companies supervised.

Qualitative supervision

Traditional supervision and the SST must be complemented by qualitative risk management: operational risks are not quantified as part of the SST. Concentration and model risks are only partially covered. Liquidity risk is largely beyond the scope of the SST. In addition, certain qualitative aspects, in particular corporate governance, are covered by neither traditional nor quantitative supervision. For these reasons, qualitative elements were added to existing supervision and developed in the form of the Swiss Quality Assessment (SQA) as a primary review instrument. The current focus of the SQA is the review of corporate governance, risk management and internal control systems (ICS). The SQA components are a) a company's basic organization and documentation, b) questions on the current situation within the company and c) a self-assessment in various areas. In 2008 the SQA team focussed on the review of over 165 SQA reports provided by the companies and groups which were required to take part. A special methodology was developed in order to analyse and evaluate the SQA reports submitted. Although it is still too early to make any detailed statements about the results of the analysis of the submitted reports, what is already apparent is that two of the objectives of qualitative supervision have been achieved:

- Firstly, the information obtained from the SQA lends itself to being integrated into the normal supervisory processes. This provides the supervisory officer with useful information for tailoring supervision to an individual company even more intensively.

- Secondly, it can be said in general that there has been a tangible increase in the significance attached to corporate governance, risk management and ICS by most companies, both big and small.

Integrated supervision makes risks more visible

The use of a mix of methods and approaches is particularly useful in a time of crisis, as it makes it possible for risks to be assessed from a variety of angles. This makes the supervision system more robust. If the solvency of an insurer is checked using various methods as envisaged under the concept of integrated supervision, risks will become more visible and as a result, can be more easily dealt with. In addition, the danger of risks arising from the use of a single review methodology is reduced.

The tied assets instrument makes it possible to conduct a rapid check of an insurer's ability to cover the rightful claims of its insured parties at all times. Since, in particular, the target amount of tied assets and the value of assets which cover this target amount are subject to fluctuations, the company needs free resources or equity capital to balance them out. The level of capital available (i.e., the valuation of a firm's assets and liabilities) as well as the level of capital required is determined using two different methods: Solvency I and SST. The first method has the advantage that it is straightforward and has been in use for a long time. Using Solvency I it is possible to carry out a check of the solvency of the supervised insurance companies within just a few days.

SST, on the other hand, allows for an assessment of the solvency of an individual insurer that is closer to reality: it is based on a market-oriented evaluation of assets and liabilities and on a risk-based calculation of the capital required. The SST is currently in the implementation phase. This means that using Solvency II is at present not possible to carry out a rapid, comprehensive check of the solvency of the insurers supervised.

The quantitative review of an insurance company's compliance with solvency requirements forms part of the first pillar of insurance supervision. Going beyond this, the Insurance Supervision Act requires that insurance companies have a balanced corporate governance system and an effective risk management and ICS. Checking that these requirements are met is part of the second pillar of supervision and is done via the SQA.

Applying a plurality of methods provides the supervisory authorities with an all-round view in two ways: in relation to the individual insurer and in relation to the insurance industry as a whole.

Through the reporting and assessments required, the companies themselves gain more comprehensive insights into their strengths and weaknesses, and this can be used directly for better managing the company. In this way, integrated insurance supervision contributes to the stability of the individual companies and, ultimately, to the security of the entire system.

Business plans

Insurance undertakings' business plans reviewed

The business plan documents submitted in the past by the insurance undertakings subject to supervision were no longer sufficient to meet the new requirements under the supervision legislation which entered into force at the beginning of 2006. Consequently, all insurers were required to submit a new business plan to FOPI for review. Most of the plans submitted were audited in the year under review.

The Insurance Supervision Act, which came into force on 1 January 2006, and the new Supervision Ordinance extended requirements in terms of the business plans to be submitted by insurance undertakings, involving aspects such as details of activities outside Switzerland, the owners of the company and the persons in charge (board of directors, executive boards, appointed actuaries), the name of the external auditors, information on any outsourcing of essential functions, details of reinsurance plans or of risk monitoring.

Even before the new supervision legislation came into effect it had become clear that the new requirements under supervisory law and the resultant extension of the information to be provided were no longer compatible with the documents that insurance undertakings subject to supervision were obliged to submit. As a result, Art. 216 para. 9 of the Supervision Ordinance states that insurance undertakings have to submit to the supervisory authorities for approval a new business plan in line with the new requirements within two years of the new insurance supervision legislation entering into force on 1 January 2006. No provisions were made for exemptions or special dispensations, which means that this new condition also applied to insurance undertakings which were already licensed. A taskforce within FOPI developed notes on the various provisions of Art. 4 of the Insurance Supervision Act relating to the individual elements of the business plan, and the requisite explanatory information was published on FOPI's website.

Over 230 updated business plans were submitted to FOPI by the end of the year. These were inspected and checked. The details required in respect of individuals were processed outside the normal procedure and in observance of a particularly high level of confidentiality in compliance with the stringent data protection requirements in place. The other documents were subsequently subject to material controls by the supervisory officers in charge. Requests were sent out for documents which undertakings had failed to submit or were faulty in some way, and this unfortunately led to some delays in the control procedures. Essentially, however, the reviews of the documents did not give rise to any problematic issues affecting all undertakings. Any elements that were not clear or inadequate in individual business plans were able to be rectified on a case-by-case business.

The reviews were completed at the end of 2008 with very few exceptions, and the insurance undertakings were informed of any action to be taken. It should be noted that individual elements of business plans which have essentially been approved may have to be amended at a later point subsequent to more in-depth checks as part of ongoing supervisory activities.

Changes to business plans must naturally continue to be submitted to the supervisory authorities for approval in accordance with Art. 5 of the Insurance Supervision Act. If a company enters into any new insurance business, a licence is still required from FOPI in accordance with Art. 3 of the Insurance Supervision Act, and for this to be possible an appropriate business plan must be submitted.

International

Swiss insurance supervision receives growing recognition at international level

An important objective of FOPI's international activities is to reinforce Switzerland's place as a financial centre in global competition. Active international cooperation, continuing to increase the recognition given to Swiss insurance supervision abroad and the creation of an attractive framework for Switzerland as an economic centre are central elements in achieving this objective. In light of this strategy, FOPI continued to successfully develop its international activities in 2008.

One consequence of the further development of insurance supervision in Switzerland over the past few years is that FOPI was able to clearly expand its position in the year under review, both globally as well as at the multilateral and bilateral level. The main focus was on standard-setting and exchanging information as well as on international cooperation in company-related supervisory activities.

Standard-setting and the exchange of information

IAIS: In connection with the recognition of Swiss insurance supervision, Monica Mächler's appointment to the Executive Committee of the International Association of Insurance Supervisors (IAIS) at its annual conference in Budapest in October marks a major success. This makes it possible for Switzerland to play a more intensive role in shaping insurance supervision standards at the global level.

The IAIS deals very intensively with the developments on the international financial markets. The general consensus is that, in future, international collaboration between the supervisory authorities will have to take place on a more consistent, intensive basis. An important step in this direction came with the formal ratification of several papers FOPI actively helped to draft on the principles underlying group supervision as well as standards and guidelines in connection with the „Structure of Regulatory Capital Requirements", „Enterprise Risk Management for Capital Adequacy and Solvency Purpose" and „Use of Internal Models for Regulatory Capital Purposes". Corporate governance work in the insurance sector likewise continued.

FOPI made an important contribution to the work of the Implementation Committee, inter alia via Valérie Staehli's chairing of the Insurance Law Subcommittee as well as other important areas such as corporate governance and financial education. In 2008 FOPI also reviewed the further procedure with regard to participation in the IAIS Multilateral Memorandum of Understanding (MMoU). It played an intensive role in the work of the Insurance Groups and Cross-Sectoral Issues Subcommittee, which in particular facilitates and coordinates IAIS contributions to the work of the Joint Forum.

Joint Forum: Urs Karlen's appointment as representative in the Joint Forum also reinforces the international importance of FOPI. The Joint Forum was established under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the IAIS to promote cross-sector collaboration and a basic harmonisation of supervisory regulations in the banking, securities and insurance sectors.

OECD: Within the OECD's Insurance and Private Pensions Committee (IPPC), FOPI, through Michael Mayer as delegation head and member of the bureau of the IPPC, set the focus of activities on three areas:

- Work in the area of effective and efficient regulation. Switzerland's proposal that cooperation with the Comité des Marchés Financiers (CMF) be stepped up led to the creation of a Joint CMF/IPPC Task Force (Switzerland is a member), which will take on responsibility for continuing activities in the future.
- Work on corporate governance in the insurance sector. FOPI played a key role here in ensuring close cooperation with the IAIS.
- Insurance statistics with the aim of pushing ahead with the harmonisation of the data corpus at the international level.

Regional and bilateral activities

EU and EEA countries: The Swiss Financial Centre Master Plan was published in 2007. In this Master Plan, representatives from private industry express also their wish that non-life-insurance agreements between the EU and Switzerland dating from 1989 be extended to include further areas. The Federal Department of Finance subsequently set up the Swiss Financial Centre Dialogue Steering Committee which FOPI takes also part in. Following the Federal Council's decision of February 2008 on EU strategy, which defined insurance as a new priority dossier, the Steering Committee's mandate was to analyse the situation and decide on how to proceed in the first half of 2009.
In connection with this, various measures have been put in place: FOPI conducted a comprehensive examination of relevant Swiss and European legislation, which marked a clear step on the path to mutual recognition of equivalence. Parallel to this, the Swiss Insurance Association carried out an analysis of the benefits of possibly granting a reciprocal freedom of services in insurance.
The question of mutual recognition of equivalence also played an important role in the half-yearly regulatory dialogue between the EU and Switzerland with regard to Solvency II and SST. Recognition of equivalence in the area of group and conglomerate supervision was already recommended to the EU by the relevant committee of CEIOPS in spring 2008.

Exchange between German- and French-speaking countries: Events on the financial markets meant that this year's exchange of views and experiences between representatives from Germany, Austria, Liechtenstein and Switzerland could not take place. The event for French-speaking countries and regions went ahead as planned in November, and delegations from France, Belgium and Luxembourg were received by FOPI in Bern.

Agreement between Switzerland and Liechtenstein on direct insurance and insurance brokerage: The extension of the direct insurance agreement from 1996 to cover insurance brokerage was approved by parliament following the federal decision of 13 June 2008. The deadline for calling a referendum expired on 2 October 2008, with no referendum launched. The approval procedure was completed in Liechtenstein, too, and the extended agreement entered into force definitively.

Non-European countries: A further important development in bilateral cooperation was the signing of the first non-European Memorandum of Understanding (MoU) with the Australian Prudential Regulation Authority, which is based on the MoU model FOPI has with all the European member states. It's aimed at simplifying the exchange of information and the promotion of cooperation between supervisors. FOPI also received a number of foreign delegations in 2008, from countries such as the United States, China, Sweden and Singapore. The customary half-yearly regulatory dialogue with the US National Association of Insurance Supervisors likewise took place, enabling information to be exchanged in respect of developments in insurance supervision in an extremely constructive context.

Pan-European Conference: As permanent secretariat, FOPI ensures that the Conference plays its part in cooperation between European countries, including the countries east of the EU.
The last Pan-European Conference was held in June 2007 in Sofia (Bulgaria). The topic then was the mechanisms of effective consumer protection. In 2008, preparations were stepped up for the next conference, due to take place on 4-5 June 2009 in Bucharest (Romania), where the topic will be „Convergence through Cooperation".

Cooperation on company-related supervisory activities

Supervisory Colleges: For the first time ever, two worldwide Supervisory Colleges were held in Bern, marking a further milestone in the intensification of international cooperation. These Colleges focused on the Swiss Re Group and the Zurich Financial Services Group and were attended by supervisory authority representatives from the most important countries of activity of these two groups. The worldwide Supervisory Colleges complement the Cooperation Committee Meetings which have been held at the European level for some years.

Law Setting

Total revision of Insurance Contract Act

Preparation of consultation draft

In 2008 the draft document drawn up by FOPI based on the Schnyder Commission's preliminary work was submitted to the official consultation process. Following this process, the definitive consultation document for the law and the explanatory report were submitted to the Federal Department of Finance (FDF). The consultation process was opened by the Federal Council on 21 January 2009.

The Federal Law of Insurance Contracts dated 2 April 1908 (Insurance Contract Act, ICA) governs the relations under private law among insurance undertakings and between insurance undertakings and insured persons. The ICA entered into force nearly 100 years ago and has undergone only partial revisions since then.

Expert Commission draft

The ICA Expert Commission was appointed on 11 February 2003 under the direction of Professor Dr. Anton K Schnyder and commissioned to draft a total revision of the ICA plus commentary.
The ICA Expert Commission delivered the draft proposal and the commentary at the beginning of August 2006, thus concluding its work.

Consultation process

After the completion of this first phase, the legislative process was continued in FOPI. In September 2006 the FDF commissioned FOPI to prepare a consultation document based on the expert draft by the end of 2008. In 2008, FOPI, as the lead office, invited the administrative units involved to submit their comments. As part of the process to correct any discrepancies, the official consultation led to the draft being amended in autumn. The Federal Council opened the consultation process on 21 January 2009.
The consultation documents are publicly accessible in electronic form (www.admin.ch/ch/d/gg/pc/pendent.html) and any interested parties outside the administration were given the opportunity to submit their comments.

Aspects of the total revision

The total revision of the ICA addresses political concerns and the aspects of consumer protection that could not already be included in the partial revision carried out in 2004. The new ICA will take into account the parliamentary initiatives submitted at the federal level, the recommendations of the Competition Commission and the developments of insurance contract law in Switzerland's neighbouring countries as appropriate. It will also improve coordination with social insurance and liability law.
Issues dealt with as part of the total revision of the ICA include, for example, the introduction of a rescission right and a general cancellation right, as well as a review of the currently applicable statutory periods of limitation. In addition, new regulations were presented concerning an expansion of the information duties of the insurance undertakings, for example, in connection with the legal relationships with insurance agents and brokers or with regard to the ombudsman structure currently in place.

Practice relating to the new Insurance Supervision Act

New and revised directives 2008

The development of the practice relating to the new Insurance Supervision Act continues to advance: based on the legislation in place, the Federal Office of Private Insurance (FOPI) also issued new directives or revised existing directives in the 2008 reporting year.

During the reporting year, directives came into force relating to life insurance, technical provisions in the area of life and non-life insurance and the Swiss Solvency Test (SST). Amendments were made to the Directive on Investments in Tied Assets as well as to the Investment Directive and the Framework Directive on the Activities of Independent Auditors in Insurance Companies (Framework Directive on Auditing). Below is a brief description and explanation of the directives.

1/2008 Life Insurance Directive, entered into force on 1 November 2008

The Life Insurance Directive is based on the Art. 120 to 154 SO and covers five areas. The Directive defines the minimum requirements for rate setting in life insurance policies (excluding occupational pension schemes) as well as the bases applicable. Furthermore, the Directive codifies the supervisory requirements for the approval of amounts payable. This involves the calculation of amounts payable when life insurance policies (excluding occupational pension schemes) are converted and surrendered. The Life Insurance Directive ceases to apply if amounts payable are granted by insurance undertakings on an ex gratia basis.

Art. 27 to 41 of the Directive aim to implement the supervisory provisions on surplus participation in life insurance. They apply to classes A1, A2 and A3 in accordance with Appendix 1 of the SO. Pursuant to this Directive, surplus participations are those where the size of the allocation to the insured person can be controlled by the insurance undertaking.

2/2008 – Directive on Technical Provisions for Non-life Insurance, entered into force on 15 November 2008

The Directive aims to regulate the establishment and dissolution of technical provisions based on Art. 16 ISA, Art. 54 para. 4 SO and Art. 60 SO. It applies to claims arising from insurance policies excluding foreign insurance portfolios that must be guaranteed abroad in accordance with Art. 17 ISA.

Sufficient technical provisions comprise the technical provisions necessary to cover expected commitments (Art. 54 para. 1a SO) plus technical equalisation reserves (Art. 54 para. 1b SO), such as unearned premium reserves, reserves for claims, contingency and equalisation reserves, and reserves for contractual surplus participation. It should be noted that there will be a transitional period for the implementation of this Directive, i.e. the insurance undertakings subject to supervision can gradually build up their technical reserves over several years.

3/2008 – Directive on Technical Provisions for Life Insurance, entered into force on 28 November 2008

This Directive regulates the establishment and dissolution of technical provisions in life insurance. It applies to claims arising from life insurance policies excluding foreign insurance portfolios that must be guaranteed abroad in accordance with Art. 17 ISA.

FOPI has defined a number of principles that govern the establishment and dissolution of technical provisions. These relate, for example, to the appropriateness of the methods used and the precautions taken, the monitoring of the appropriateness of and confirmation of sub-portfolios, transparency and controls.

In accordance with the Directive, the first annual audit of these reserves must be carried out by the insurance undertakings for 2009 annual reporting. The transitional provisions require that the regulations concerning technical reserves as stated in the undertaking's business plan are submitted to the supervisory authority by 31 December 2009 for approval.

4/2008 – Directive on the Swiss Solvency Test, entered into force on 28 November 2008

In accordance with supervisory law, the solvency of insurance undertakings must be measured using – in addition to Solvency I – the SST, taking into consideration the relevant transitional periods. The Directive applies to all insurance undertakings, insurance groups and insurance conglomerates subject to Swiss supervision in accordance with Art. 2 para. 1a ISA in connection with Art. 65/73 ISA, with the exception of branches of foreign insurance undertakings and, in principle, reinsurance captives.

The aim of the Directive is to codify the conditions for carrying out the SST and reporting to the supervisory authority. The SST is carried out from an economic perspective. Accordingly, all the insurance undertaking's assets and liabilities are measured at market value and the impact of associated risks is identified. Internal models can also be used in this process. The individual undertakings are viewed on a granular basis, which separates the individual undertakings or clusters from closely connected undertakings. This perspective is supplemented by a consolidated view of the whole group.

9/2006 Directive on Investments in Tied Assets and the Use of Derivative Financial Instruments (Investment Directive) of 12 June 2006, revised on 20 November 2008

The insurance undertakings subject to supervision by FOPI – with the exception of reinsurers – are legally required to hold certain assets to guarantee claims by insured persons, i.e. they must retain a certain amount of „tied assets". The target amount to be covered by the tied assets is determined by the size of the technical reserves and an appropriate safety margin in accordance with Art. 1 FOPI-SO. Assets totalling this amount are allocated and are entered into the accounts and designated as „tied assets".

The Directive on Investments in Tied Assets and the Use of Derivative Financial Instruments (Investment Directive) entered into force on 1 September 2006. This revision marks the first revision of the Directive. In addition to a restructuring and formal clarification of the Directive, several adjustments were carried out that were necessitated by practice and the developments on the financial markets.

The key material changes include a redefinition of the scope in Section 1, new regulations concerning coverage in Section 2.3, general criteria for the allocation of assets to tied assets in Section 2.4.1 and revised limits in Section 2.5. There are also regulations on the regular and proper nature of the required measures (2.6.4) and on reporting to FOPI (2.9).

The following changes should be noted with respect to assets that may be held as tied assets for the individual investment types: there are new regulations concerning securitised liabilities (Section 3.3.2), real estate can be accounted for at 100% of market value (3.6.3) and collective investment schemes with holdings in higher risk traditional investments or alternative investments are classed as alternative investments (3.8.1).

The section on derivative financial instruments contains new regulations on the treatment of credit derivatives (3.9). Furthermore, following the introduction of the new CISA, a number of clarifications with regard to collective investment schemes and single investor funds became necessary. Finally, certain simplifications have been defined for collective investment schemes which invest in core assets and comply with certain conditions.

The appendix has been expanded to include explanations and examples which were previously in the sections on the relevant asset classes.

06/2007 Framework Directive on the Activities of Independent Auditors in Insurance Companies (Framework Directive on Auditing) of 21 November 2007, revised on 28 November 2008

The Framework Directive on Auditing of 21 November 2007 has also been revised. On 21 November 2007 FOPI brought into force the Framework Directive on the Activities of Independent Auditors in Insurance Companies. Owing to amendments made to the Swiss Code of Obligations and conclusions drawn from the assessment of 2007 reporting, a number of changes have been made to the Directive's appendices and enclosures.

All of these directives codify Swiss insurance supervision legislation and will also be used over the coming year in the implementation of the practice drawn up by FOPI.

From the Supervisory Areas

Supervision of groups and conglomerates

Experiences with integrated supervision in an international context

In the reporting year, groups and conglomerates subject to supervision had to submit full Solvency I reporting and a risk-based Swiss Solvency Test report for the first time. In addition, a number of surveys were carried out on corporate governance, risk management and internal control systems.

International cooperation between supervisory authorities was also intensified. The experiences from the financial market crisis have clearly demonstrated that group-wide integrated supervisory activities result in an improved flow of information and a more specific and relevant form of supervision.

The Insurance Supervision Act states that, in addition to individual supervision, a group and conglomerate-wide supervisory process must be carried out. In 2006 FOPI developed a number of directives to implement these requirements in practice. These entered into force on 31 December 2006. The following year, 2007, was a transitional period, during which the groups and conglomerates were able to make the changes necessary to comply with the reporting requirements.
In 2008, the groups and conglomerates subject to supervision had to submit a complete set of reports for the first time. These covered the following areas:

- Organisation of the group
- Structure of the group
- Internal transactions
- Solvency I and risk-based solvency calculations at group-level
- Group annual report
- Risk management and group-wide risk report
- Risk situation and concentration report.

Furthermore, in 2007 a comprehensive independent auditor's report on the annual financial statements, supervisory matters and risk reporting was required for the first time.

Qualitative group supervision

In 2008, corporate governance, risk management and internal control systems of groups and conglomerates was surveyed using the Swiss Quality Assessment. The corporate governance, risk management and internal control system documentation and the groups' and conglomerates' quality self-assessments form a key part of the supervisory review of the quality of the reporting.
The results of the reports submitted on both an annual and semi-annual basis and the assessments of the risk and audit reports were combined with to form an all-round picture of the groups and conglomerates under supervision. In 2008, Bâloise, Helvetia, Mobiliar, Nationale Suisse, Paris Re, Swiss Life, Swiss Re, Vaudoise and Zurich Financial Services were subject to group/conglomerate supervision.
On the basis of initial experiences, these supervisory tools will be developed further with a view to an integrated supervisory process. Of particular note are simplifications in the reporting process thanks to electronic tools and the focus on statutory supervisory matters related to group structure and group-internal transactions. Increased emphasis will also be given to group liquidity.
FOPI plays a key role in shaping and supporting international efforts to achieve an integral and coordinated group supervision that takes account of the global network of the institutions under supervision.

The concept of international supervisory cooperation

In terms of international supervision for insurance groups and conglomerates, four different approaches have become apparent. The first focuses on insurance supervision for individual companies. The group relationships are taken into account as much as possible by the body responsible for supervising the individual company, but no contact is sought with insurance supervisory bodies in other countries.
The second approach centres on supervision for specific individual group companies, but also involves making unilateral contact with other insurance supervisory authorities to exchange information. This exchange of information takes place largely on the basis of bilateral or multilateral memoranda of understanding.

FOPI currently follows a third approach: insurance groups or conglomerates are viewed as a whole. Management are subject to the supervisory authority under whose jurisdiction the group is managed. The European Union's supervisory authority also uses a similar approach under which a number of Coordination Committee meetings are held. As is the case with the national European supervisory authorities, there is a coordinated exchange of information for an entire insurance group, as is permitted under the new Insurance Supervision Act. Memoranda of understanding are in place with all insurance supervisory authorities in EEA countries, and these regulate the exchange of information. In the reporting period, it was also possible to conclude a memorandum with an insurance supervisory body in a non-European country for the first time. Further such memoranda of understanding are set to follow.
The fourth approach entails drawing up binding definitions of the roles of the various supervisory authorities involved with the group and mutually acknowledging the measures taken by each one. This approach has so far not been implemented in practice; the European Union's „Draft Solvency II" Directive contains details of steps being taken in this direction.

FOPI implementation of group supervision: Supervisory Colleges as a new feature
In what is a new development for FOPI, two worldwide Supervisory Colleges have been set up for the major insurance groups Swiss Re and Zurich Financial Services. These were very well received, with supervisory authorities from Europe, Asia, Australia as well as North and Central America taking part. The goal of these first worldwide Supervisory Colleges was to expand the knowledge of all those present about the groups concerned from strategic, organisational and financial perspectives. Members of the executive boards also represented the groups at both Supervisory Colleges.
The supervisory authorities that took part sought to clarify the outline conditions for further communication. The aim is to hold worldwide Supervisory Colleges for both groups at least once a year, with certain issues being examined in greater detail over time.
In 2008 FOPI also held European Coordination Committee meetings for three international insurance groups/conglomerates.

In connection with ongoing group supervisory activities, there is also a bilateral exchange of information aimed at safeguarding appropriate executive management, safeguarding the groups' financial security and their security in terms of prudent policies, in addition to addressing issues relating to any potential crisis. This more intensive contact, in particular with the European supervisory authorities, has proved successful. It has been possible to accelerate and consolidate the flows of information, while the groups under supervision have been able to focus their resources.

Cooperation with international organisations
FOPI is actively working with global organisations such as the IAIS to shape group supervisory processes and set up worldwide Supervisory Colleges for a structured exchange of information. Also in connection with developing Solvency II, the European project to establish a risk-based capital adequacy approach linked closely to the SST, FOPI is often able to draw on its past experiences.

Conclusion
Switzerland is well positioned to develop further and to implement efficient supervision for its internationally active groups and conglomerates. The material requirements and the structures in place for exchanging information are well suited to the role of the leading supervisory authority for groups managed out of Switzerland. This represents an important step towards countering the risks arising from the current financial market crisis.

Life

Product innovation and supervision

The goal of the supervisory authority is to create an climate that fulfils client needs and favours free market forces. By intervening in the markets, supervisory authorities find themselves in a very difficult situation; they must try to avoid stifling innovation, while simultaneously safeguarding the interests of insured persons. It is beyond dispute that the insurance market depends on innovation. Innovation that not only derives from past knowledge and experiences, but that is also based on the changes demanded by clients and which have been tested by the market. Only providers managed in a competent, solid and goal-oriented manner can meet this challenge.

Historical Background

The revised Federal Constitution of 1874 gave the Federal Government supervisory and legislative powers over the way in which private insurance companies were run. As a result, it took eleven years until the supervisory law was presented to the Federal Assembly and the Federal Insurance Office could begin its work in 1886. Until then, supervisory activities were regulated on a cantonal basis. Private insurance companies were against the formation of a central federal supervisory body, in particular opposing the authority of the Federal Insurance Office to issue guidelines on how businesses were run.

Nevertheless, the order was given for supervisory bodies to monitor businesses' operations and issue detailed guidelines for insurance contracts. These guidelines were to be issued because the insurance industry was said to be based on principles that were not understood by everybody in the first place. The actual role of the supervisory authority was thus to provide technical assistance to the layman, whose otherwise healthy judgment could be relied upon in important matters. This order gave rise to the preventative prior approval process for tariffs and conditions of insurance, which sought to prevent the system being abused by life insurers. The aim was to ensure that these companies adhered to the requirements and principles regarding rates and the pre-formulated conditions of insurance.

Following the global economic crisis in 1929, a system was introduced in 1930 to cover insurance obligations with investments subject to appropriate, strict investment regulations. This so called security fund, named as „tied assets" since 2006, is still in place to protect insured persons in case of insolvency.

A key element in protecting insured persons is also the review of the suitability of surrender values that the insurer has to grant if the life insurance policy is redeemed prematurely (Art. 91 para. 3 Insurance Contract Act).

Classical life insurance

For a long time now, life insurers have offered what is now classed as classical life insurance. The cash flows related to these life insurance products are determined at the outset. Insurers and insured persons agree to adhere to their respective contractual obligations over a long period of time: the insured person pays a premium within a specified period, while the insurer pays out the amount agreed in the policy on the occurrence of the insured event (maturity of policy, death, invalidity or employment incapacity).

If the insured person wishes to terminate the policy prematurely, he or she is entitled to the surrender value that is defined in the policy and has been approved by the supervisory authority. All savings capital is invested securely by the insurer. The insurer guarantees the insured person a minimum rate of interest. If the insurer generates a surplus from its insurance activities, a share of this must be allocated to the insured persons in line with the contractual agreement.

Innovation as a consequence of capital market liberalisation

The increasing importance of the stock markets and the introduction of new financial instruments at the end of the 1980s resulted in a sea change as supervisory activities become more liberal. This led to a relaxation of investment regulations for tied assets. As was later demonstrated, the associated introduction of Solvency I was not enough to counteract the increased market and credit risks brought about by this relaxation of investment regulations.

This left the way open for an increase in life insurance policies tied to units in collective investment schemes. With these new types of products, insurers allow insured persons to have a say in how their savings are invested; however, they also take on the investment risk. From then on, life insurers only took on the biometric risks of death and employment incapacity. These new products allowed clients to tailor their private pensions in line with their own risk capacity. These innovations were made possible by a quantum leap in IT capabilities, such as data warehousing, client server technology and Internet portals.

A significant disadvantage for insured persons is peculiar to unit-linked life insurance: policies stipulate that insurance benefits are paid out in cash. If a policy matures in a bear market, the client will lose a lot of the money he or she has invested without having the chance to ride out the book losses incurred, as would be possible with direct fund investments. Much to their dismay, many insurance clients have had to face this unpleasant situation, primarily during the crisis in the new economies in 2001/2002 and the present financial market crisis.

The renaissance of capital protection and guaranteed interest rates

Following the crisis in the new economies in 2001/2002, life insurers had to dramatically reduce the surplus participation for classical life insurance products, while the value of clients' fund assets in unit-linked life insurance policies declined significantly. Both life insurers and their clients had built up too large an exposure to risky investments, such as equities and foreign currency bonds, in the hope that they would generate high returns.

In response to the crisis, both the supervisory law and investment regulations were revised. However, the previous inflexible limit system was not tightened; instead, the internal processes in place to manage, control and monitor investments were made subject to far stricter requirements. However, the regulatory steps brought about by the crisis could not be applied to unit-linked life insurance policies as these involved insured persons taking on the investment risk themselves. This resulted in more clients who were seeking secure investments once again demanding capital guarantees for life insurance products. Life insurers met this demand by reintroducing guaranteed interest rates and capital protection guarantees in the event of survival. However, client options for the selection of how to invest had a significant impact on the insurer's ability to offer guaranteed interest rates and capital protection guarantees. While under classical life insurance policies insurers can match the investment with the cash flow requirements triggered by future liabilities (asset-liability matching), the option for clients to choose how their money is invested under a unit-linked life insurance policy can have a considerable effect on insurers' cash flow planning.

Life insurers countered this risk by introducing „safe haven clauses" into their terms and conditions of insurance. If the value of a collective investment seems likely to fall, these clauses allow life insurers to transfer into a bond fund with fixed income securities from first-class debtors.

Unit-linked life insurance policies with capital protection and guaranteed minimum interest rates nevertheless have two major disadvantages for insured persons. These are related to the technical construction of the policy.

1. The way in which the policy is financed involves immediately investing the premiums in units while covering the costs relating to the risk of death or employment incapacity and the administration costs by selling units on a monthly basis. If the fund now posts a negative performance and the value of the units falls, the sum at risk in the event of death rises, in turn increasing the premium that must be paid. This mechanism leads to value declining much more quickly in bear markets.
2. Capital protection and guaranteed interest rates only take effect after the policy has matured. If a client wishes to withdraw his or her money prematurely, the guarantees do not apply. The client receives only the market value of the fund units invested in cash, after deduction of any costs for surrendering the policy.

Increased client options
Life insurers try to compensate their clients for these substantial disadvantages by offering a wide variety of additional product innovations. One option is to structure death benefits more flexibly to better meet client needs, which involves a more complex rate structure.
In addition, the life insurer can also include a surrender guarantee in the unit-linked life insurance product. This addresses three different risks: the mortality risk in the event of death before the policy matures, capital protection and guaranteed interest rates upon maturity and early surrender. The surrender risk is particularly dangerous in the event of interest rates rising suddenly. The client is able to surrender the life insurance policy and reinvest the money at a higher interest rate. Because the fixed income securities held by the life insurer in its portfolio will fall significantly in value as a result of the interest rate rise, the life insurer will incur a loss as soon as it has to finance this surrender value by selling these securities. These changes therefore increase the risk for the insurer. As the current financial crisis has shown, having large equity reserves is not always enough. Being able to recognise and assess the frequency and size of the risks and then incorporate these into the structure of the policy is key to the survival of life insurers. For supervisory bodies, it is therefore of fundamental importance to know who is offering these types of products on the market, the characteristics of them and how financially solid the offerer is.

Example: life annuity
To illustrate the differences arising from the points described above between a classical and a new insurance product, let us take a life annuity beginning immediately as an example. The life insurer guarantees the client an annuity until death.
This means that annuity insurances are long-term commitments with durations of far more than 20 years. In order to meet these commitments, the insurer needs a sufficiently large community of insured persons to be able to reliably estimate the uncertainty of death occurring. In addition, mortality for ages above 60 plays a dominant role. The life insurer must therefore estimate the mortality of the annuitants in their group of insured persons as a function of their age.
With classical annuities, the life insurer invests the single premiums it receives using its own investment programme. It structures its investment portfolio in line with future cash flows and guarantees a minimum amount of interest. It invests these very prudently so that it can absorb any future interest rate movements. If it generates more than the guaranteed interest, it can give the annuitants a share of the surplus in a number of different ways. It can distribute the surplus amount in full together with the annuity for the current insurance year as a surplus annuity or it can invest the surplus amount so that all annuities are proportionally higher over the rest of their duration.
According to the companies that offer them, the success of these new annuity products, which are sold in the US as „variable annuities", is a result of their optimal combination of capital market and longevity risks. In actual fact, however, these risks are not combined; instead, the life insurer tries to simultaneously meet both the security and return-related needs of its clients. The life insurer guarantees insured persons a lifelong minimum annuity. This guarantee can be considered a classical part of one these products. However, the single premium is invested in units of a collective investment, with clients given a right to have a say how their money is invested. The annuities paid out are in line with the performance of the fund, but thanks to the minimum guarantee,

they can only be adjusted upwards. If the market value of the fund units falls, annuity holders receive at least the contractually agreed guaranteed annuity. Such products include a high „anti-selection" risk: When investments are performing badly, annuity holders can adjust their investment mix to involve as many risks as possible because the market risk is borne by the life insurer. The life insurer must take this factor into account. Furthermore, the life insurer must also bear the classical longevity risk. The supervisory authority is keeping a close eye on this development and engaging in an ongoing risk dialogue with life insurers.

Bank-like products

Innovation in the area of unit-tied life insurance without capital protection has gone in a completely different direction. In recent years, the wealthy client segment has grown rapidly in Switzerland and neighbouring countries. These clients need to have insurance policies in place for all their nominal assets (bonds, equities, fund units). This need, which was met abroad following the introduction of the Third EU Insurance Directive, has been taken into account by Swiss life insurers since the 2006 revision of supervisory law in two ways: life insurance linked to internal investment portfolios or other benchmarks (new insurance directives A2.4 – A2.6) and capitalisation transactions (new insurance directive A6). Although capitalisation transactions are classified as life insurance, they do not contain any biometric risk. This means that in the event of death, only the accumulated actual life provision must be paid out. With these new types of life insurance, the life insurer does not bear any market or interest-rate risk. It is much more a case of monitoring other threats: the bank-like structure of these life insurance products can exacerbate the liquidity risk in times of crisis. It should also be noted that these do not give rise to any compliance risks provided clients do not intend to use these products for illegal purposes. The supervisory authority must also pay due attention to any such occurrences.

Conclusion

For a long time, the life insurance market worked on the basis of classical life insurance. The liberalisation of investment guidelines in 1994 encouraged insurers to come up with new innovative solutions. As a consequence, however, countermeasures had to be taken to steer life insurers back towards providing risk-conscious investment strategies and product structures. The supervisory authority has the challenging task of balancing the liberalisation of the market with regulatory provisions. On the one hand, they must try to ensure that insured persons do not incur losses as a result of insolvencies, while on the other they must monitor the insurance market to ensure it is not contaminated by any damaging products. In contrast, they must also limit their regulatory activities so as not to overly stifle innovation and functional effectiveness in the insurance market.

Non-life

Supervision of Swiss branches of foreign direct insurers

The division for non-life insurance approved four new licence applications to set up new Swiss branches of foreign direct insurers during the reporting period. Under supervisory law, there are a number of special regulations for such branches, some of which relate to Solvency I or appointing authorised representatives.

As at 31 December 2008, 219 private insurance undertakings and 44 health insurers offering private supplementary insurance products were subject to supervision by FOPI. Of these companies, 46 are Swiss branches of foreign direct non-life insurers. Their share of Swiss direct non-life insurance business, measured by gross premiums booked, amounted to just over 7% as at year-end 2007. During the reporting period, FOPI vetted and approved four licence applications (previous year: two) to set up new Swiss branches. These types of organisation are subject to a range of provisions under supervisory law.

Legal form

There are a number of provisions regarding legal form that apply to companies wishing to carry out insurance activities in Switzerland. These vary depending on the geographical location of the company's registered office and the organisational unit chosen in Switzerland:

- An insurance undertaking domiciled in Switzerland must take the legal form of a joint stock corporation or cooperative society.
- Thanks to the freedom of establishment, a foreign insurance company domiciled in the European Union (EU) can set up a branch in Switzerland provided it is authorised to carry out insurance activities under the national law of its country of domicile. This freedom of establishment and the related conditions are set out in the agreement between Switzerland and the European Economic Community (EEC) on direct insurance other than life insurance (SR 0.961.1). Since the signing of this agreement, a new legal form, the Societas Europaea (SE), has been created and has been chosen by insurance companies domiciled in the EU. This legal form is not included on the list of approved legal forms in the agreement. However, FOPI, and therefore also FINMA, recognises the SE legal form for foreign insurance undertakings from the EU provided the supervisory authority in the country of domicile confirms that the SE is equivalent to one of the legal forms listed in the agreement.
- In line with the principle of non-discrimination, when approving the setting up of branches of insurance undertakings not domiciled in the EU, FOPI must not treat these companies differently from insurance companies within the EU. Nevertheless, the supervisory provisions must be met.
- In addition, there is an agreement in place between the Principality of Liechtenstein and Switzerland of 19 December 1996 (SR 0.961.514) on direct insurance and insurance intermediation that allows for the freedom of establishment and to provide services related to direct insurance activities in the territory of the other contractual party. An insurance company can therefore sell insurance products from Liechtenstein with or without a physical branch in Switzerland (and vice versa).

Business plan
The Swiss Insurance Supervision Act (ISA, SR 961.01) and its Supervision Ordinance (SO, SR 961.011) and the issue-specific directives/circulars describe which prerequisites and conditions must be met for approval to be granted to a Swiss branch to carry out insurance activities. A business plan must be submitted with the approval application in accordance with Art. 4 ISA.

Authorised representatives of Swiss branches
An authorised representative must be appointed to the management of a Swiss branch. This person will have the right to represent the branch in business matters and must have a good reputation, an unblemished business record and be resident in Switzerland. The authorised representative represents the foreign insurance company in almost all affairs that concern the implementation of insurance supervisory law. He or she must therefore have the requisite knowledge to manage the branch and be an expert in the field of insurance.

Solvency I
When setting up a branch, the head office abroad must have the minimum level of capital required. The insurance undertaking must have sufficient free and unencumbered equity capital. If the company is from the EU, this can be proven by means of a solvency report that also covers Swiss business. For a branch whose head office is outside the EU, a guarantee amount equal to the minimum amount or 10% of the solvency margin must be deposited with the Swiss National Bank.

Technical provisions and tied assets
As with insurance undertakings domiciled in Switzerland, branches of foreign direct insurers must also hold sufficient technical provisions to cover their entire business activities. The requirements regarding the type and size of these provisions as well as the principles governing how they are calculated are described in Circular 11/2008 of 20 November 2008 concerning the Directive on Technical Provisions in Non-life Insurance.
The target amount to be covered by tied assets usually comprises the technical provisions for direct Swiss business described in Art. 68 and 69 ISA plus a safety margin for non-life insurance of 4%. This target amount must be covered by assets at all times to ensure that claims by insured persons can be settled. In this respect, the insurance company will allocate certain assets to tied assets. If any related securities are kept in the custody of a third party at a bank, the custodian bank must sign a sample agreement. This agreement prohibits the bank from using the securities that are held as tied assets. This means the custodian has no lien, right of retention, right of off-set or any other rights. The tied assets may not be used to satisfy any third-party claims requested, for example, by the head office abroad, if as a result claims by insured persons cannot be satisfied in full (Art. 57 ISA).

Further supervisory regulations
Branches of foreign direct insurers are also subject to the regulations listed below that also apply to insurance undertakings domiciled in Switzerland:

- An actuary must be appointed, who is then responsible for monitoring insurance risk, developments in tied assets and, where necessary, the initiation of any relevant measures. The actuary regularly draws up a report for the authorised representatives.

- So that FINMA have the information necessary to fulfil its supervisory role, each year Swiss branches must submit an annual report and a supervisory report covering their business in Switzerland over the previous year by 30 April of the following year.

- Furthermore, within three months of the close of the financial year, these branches must produce reporting detailing the target amount for each set of tied assets together with a list of coverage values.

- If a Swiss branch fails to comply with the legal regulations or any directives or ordinances issued by FINMA, the latter may implement a number of protective measures to safeguard the interests of the insured persons; these may include orders to freeze the branch's assets, to remove its top management or to transfer its insurance portfolio and the related tied assets to another insurance company.

Supplementary health insurance

„Flex" model with lower premiums as an alternative to traditional supplementary hospital insurance

In supervising supplementary health insurers, FOPI noted a trend towards „Flex" products in supplementary health insurance.

As a result of the sharp rise in mandatory health insurance premiums over recent years, insured persons increasingly terminated their supplementary insurance policies with high or rising premiums. In particular, fewer people have been covered by semi-private and private supplementary hospital insurance in the last few years.

Changes to supplementary hospital insurance

Since 2006, however, there has been a slight increase in the number of insured persons taking out supplementary hospital insurance. At the same time, the premiums per insured person have been falling. This trend is a result of two factors: firstly, insurers have only been able to pass on some of the costs of the inflation we have seen in recent years to their customers. Secondly, substitute „Flex" products are also playing a key role.

„Flex" products allow insured persons to select the benefits they receive from a number of predefined conditions before entering hospital. Because these products contain incentives to select more cost-effective treatments, their premiums are lower than traditional hospital insurance. „Flex" models have consequently grown in importance in the past few years.

However, over the past four years, „Flex" products have shown a great deal of volatility in terms of annual losses. This is especially the case if volatility is adjusted in line with the factor by which the number of insured persons is increasing. It is precisely this increase, however, which had a positive effect on the insurer's earnings power during the same period.

Aspects of product controls

In accordance with the Insurance Supervision Act, the rates and contractual conditions for supplementary insurance linked to mandatory health insurance policies are subject to approval by the supervisory authority. The law stipulates that FOPI shall check whether the rates are such that they protect the solvency of the insurance company, on the one hand, and the insured persons against abusive practices, on the other.

Insurance undertakings usually waive their cancellation right for supplementary social health insurance policies. In other words, this guarantees insurance cover for life, meaning insurance undertakings enter into very long-term obligations. One of FOPI's main tasks is to check whether newly introduced products can be consistently managed over time. The rating structure and the financial model are thus very important in this respect. Furthermore, as part of the approval procedure, FOPI also checks the conditions for establishing and making use of the technical reserves.

One of the key characteristics examined in a new product is its resilience to all foreseeable risks. While inflation risk can be largely offset by making inflation-related changes to the premiums, other risks, such as fluctuation risk or the risk of negative consequences arising from mixing insurance portfolios, must be addressed more carefully.

To offset the risk of negative consequences arising from mixing insurance portfolios, the product must be kept stable. In this case it is no longer possible to offset the risks on an ongoing basis. If the product is redistributed between generations, it is the insurer's responsibility to ensure that it maintains its consistency. This can be achieved by creating a corresponding old-age reserve.

It is not only the level of premiums that are key for insurers in maintaining a healthy solvency situation; the form and structure of the insurance portfolio are just as important. Insurers are free to structure premiums for private health insurance as they wish, providing this is within the scope permitted by the Insurance Supervision Act. Insurers must have this room for manœuvre so they can control the development of the portfolio. The FOPI procedure to approve rates takes into account whether making a change to the rating structure will help to renew the portfolio and thus be in the interest of the portfolio as a whole.

In terms of protecting insured persons against abusive practices, the supervisory authority must check whether there is any evidence of significantly unequal treatment from a legal or actuarial point of view between the insured persons linked to the portfolio. Particular attention is paid to this as part of the annual approval process for premium adjustments, as for certain groups of insured persons, the market no longer plays a role given the excess demand. For example, it is often no longer possible for older people to change insurers.

Supervision of intermediaries

Operational supervision of intermediaries

Since the revised Insurance Supervision Act (ISA) entered into force on 1 January 2006, around 14,000 requests have been reviewed and over 12,000 insurance intermediaries registered. This allowed the creation of the intermediaries' register as a key supervisory instrument to be completed in 2008. In addition, the „VBV Insurance Intermediary" training programme was also developed as the standard for the insurance industry.

Since 1 January 2006 insurance intermediaries have been subject to supervisory law (Insurance Supervision Act). A key instrument in this supervisory process is the public register, which is accessible via the intermediary portal at www.vermittleraufsicht.ch. The supervisory authority finished setting up the register in 2008. In particular, intermediaries linked to an insurance company, whose entry in the register is voluntary, have shown great interest in registration. Nearly 60% of the approximately 12,000 published entries are dependent intermediaries.
While the request review process for legal entities largely consists of checking extracts from the Commercial Register and professional indemnity insurance, the process for individuals focuses much more on personal and technical requirements for entry into the register. All individuals must have a clean excerpt from the criminal and debt enforcement registers. The technical suitability of candidates is assessed by sitting an exam.

Introduction of training programme

Together with the Insurance Industry Vocational Training Association (VBV), the „VBV Insurance Intermediary" programme was created. The supervisory authority is responsible for supervising the board of examiners and the exam regulations. To become certified as a VBV Insurance Intermediary, candidates must pass an oral and written examination. While the written examination involves answering questions on the knowledge gained from 15 modules over 20 days of attendance, the oral exam focuses on a simulated consultation meeting with a potential insurance client. The exams can be taken in all parts of the country and in all the official languages.

In addition to the VBV Insurance Intermediary qualification, seven other training courses in Switzerland were ranked as providing equivalent qualifications, with almost 20 other courses from the European Economic Area also being approved. The European Financial Certification Organisation (Eficert) intermediary qualification is set to become the Europe-wide standardised professional qualification in the European financial world. Eficert has drawn up a profile of a European intermediary. Switzerland will apply for its VBV Insurance Intermediary qualification to be certified as a „European Insurance Intermediary".

Quality of advice

These training courses and specialist qualifications are the foundation stones for a sustainable increase in the quality of advice given. These must be put into practice by insurance intermediaries in their workplaces and in their everyday lives. The supervisory authority has little influence on the quality of the advice given, as existing legislation only applies to protecting insured persons against abusive practices by insurance intermediaries. It is more the role of the insurance companies and the independent intermediaries themselves to demand quality above (production) quantity in product distribution, too. The ombudsman for private and social insurance (SUVA) will continue to deal with client complaints. However, these measures in place should also increase the quality of the advice and thus client satisfaction over the medium and long term.

Ongoing supervision with on-site visits

Unlike supervision of insurance undertakings, intermediary supervision does not involve a solvency audit. Nevertheless, the supervisory authority conducts on-site inspections to insurance intermediaries throughout Switzerland. The checks focus on the following:

- Compliance with the intermediaries' obligations, including preconditions for entry into the register
- Cooperation agreements with insurance undertakings, commission and organisation
- Compliance by the intermediary with the new information requirements under Art. 45 ISA. All dependent and independent intermediaries have had to meet these information requirements upon initial personal contact with clients since 2006.

The inspections carried out to date have resulted in the following findings:

- Firstly, the great heterogeneity of the market was confirmed. In addition to large industry brokers, many small and very small firms operate on the Swiss market. These very small firms are increasingly joining together into pooled companies, in order to share infrastructure costs and obtain better conditions from insurance companies.
- Secondly, many insurance intermediaries welcome the new Insurance Supervision Act, but in some cases are insufficiently informed about their duties, such as the information requirements, and therefore inadequately implement them.
- Finally, the traditional field staff of insurance companies continues to be very important in Switzerland. More and more, insurers are linking themselves to distribution structures and are strengthening distribution through vertical integration.

Agreement with the Principality of Liechtenstein on insurance intermediaries

The Agreement of 19 December 1996 on Direct Insurance between Switzerland and the Principality of Liechtenstein grants insurance companies from both contracting parties the right to establish registered offices in the other state or conclude cross-border life and non-life insurance contracts. The Agreement was amended in 2007 to include an analogous provision on insurance intermediaries, granting them freedom of establishment and provision of services on the basis of reciprocity. In other words insurance intermediaries duly registered either in Switzerland or in Liechtenstein may work in both countries, based on the single licence and home country control principles.

FINMA

Since 1 January 2009, FINMA has monitored insurance intermediaries and directly subordinated financial intermediaries within a single organisational unit in the Banks/Financial Intermediaries domain.

Further information on the intermediary portal: www.vermittleraufsicht.ch