www.bpv.admin.ch

Annual report

2005

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

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

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

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

Publisher
Bundesamt für Privatversicherungen BPV
Schwanengasse 2
CH-3001 Berne
www.bpv.admin.ch

Design
Basel West Unternehmenskommunikation AG,
Basel

Printing
Dietschi AG, Waldenburg

Distribution
SFBL, Distribution of Publications,
CH-3003 Berne
www.bbl.admin.ch/bundespublikationen
No 622.105.eng

Order by Internet
www.bbl.admin.ch/bundespublikationen

Index

The situation concerning the insurance industry and insurance supervision in Switzerland

Herbert Lüthy, Director

1. The situation concerning the insurance industry

The insurance sector in Switzerland continued its recovery from the difficult years of 2001 and 2002. This is shown by a market overview of companies which, in the year under review, were under the supervision of the Federal Office of Private Insurance (FOPI). The most important findings of this market overview (see on page 26):

- The equity capital basis, in particular in the case of life insurers, increased considerably, which led to a higher than average solvency indicator.
- Premium volume also increased: whereas the increase for non-life insurers was striking, life insurers nevertheless recorded a slight increase.
- However the 2005 insurance year was also marked by natural disasters such as the flood damage of last August.
- Overall, the financial earnings are clearly above the level of the preceding period, also thanks to the positive development on the stock market, and have contributed to the recovery.

The survey, which underpins the market overview, is based to a large extent on Solvency I. It is the basic formula to determine any possible insolvency, the legal consequences of this but also surpluses sharing for occupational pension plans. This statutory view is based on EU standards. Nonetheless, from an economic point of view, this is regarded as insufficient because the risk factors are not included. The EU as well as other countries (such as the USA, Canada and Australia) are developing concepts which include the risk factor in supervision. This work is being conducted under the name Solvency II. Switzerland is playing a pioneering role in these efforts: FOPI has already implemented the Solvency II ideas in the Swiss Solvency Test (SST).

The result of the market overview, from the statutory viewpoint, is also supported by the SST: The second field test which was carried out in the year under review with several insurers, shows that the insurance sector in Switzerland has sufficient capital on the average.

2. Pioneering role in risk-based supervision

SST may be seen to have a pioneering role in developments in risk-based supervision in accordance with Solvency II in Europe. Accordingly at the international level it meets with broad support and recognition. Analyses abroad in Europe come to the conclusion that the SST is currently the only tool for evaluating the solvency of insurance companies that fulfils all the criteria for a solvency assurance system providing guarantees, as determined by the International Association of Insurance Supervisors (IAIS), the International Association of Actuaries (IAA), and the EU. The experts of the IMF certified that insurance supervision will be better able to gauge systematic risks thanks to the new supervisory tools. Accordingly, the IMF will use the follow-up evaluation scheduled for November as part of the Financial Sector Assessment Programme to consider the application and the results of the SST as a tool for securing the stability and the solvency of the insurance sector.

3. International cooperation

That which applies to the economy in general is also applicable to the insurance sector: it is becoming increasingly more global. Above all this applies to Swiss insurance groups and conglomerates which are to be regarded as important international groups. For example Swiss Re will, with the acquisition of GE Insurance Solutions in mid-2006, become the biggest global reinsurer, subject to authorisation by the regulators and the competition authorities concerned. This globalisation of the insurance market renders international cooperation between supervisory authorities all the more important. From our point of view, a tremendous success factor was the fact that supervisory authorities of the EU member states recently agreed to sign a memorandum of understanding (MOU) with Switzerland. This will in particular facilitate the increased involvement of the FOPI in the supervision of insurance groups in the EU. This raises the prospect of at least partially easing the costly placement of Swiss insurance groups under additional group supervision within the EU. The readiness of the EU to sign the MOU is due to a large extent to the new orientation of the supervision, in particular to the SST.

4. The situation concerning insurance supervision

This development stems from intensive work. At the end of 2002, the Federal Council and parliament demanded the reorientation of supervision. As a result, a new supervision philosophy was drawn up and FOPI was fundamentally revised. Today approximately three and a half years later, this work is now complete, the reorientation process is finished:

- The fully revised Insurance Supervision Law came into force on 1 January 2006. The new Insurance Supervision Law is a modern and pertinent law which takes account of the requirements of a highly globalised and transformed insurance market.
- The new Ordinance on Supervision which sets out the Insurance Supervision Law in concrete terms and replaces various enactments, was also able to be brought into force at the start of the year.
- The SST was created as the most important new supervisory instrument. It amalgamates risk and principle-based supervisory philosophy, is efficient yet streamlined.
- In similar fashion to supervision philosophy, an organisation structure had to be created which is appropriate for implementing and executing the new Supervision Law. This structure has been in operation now for over a year.
- Finally, a considerable part of the required increase in the number of personnel has taken place. The perceptible dynamism in supervision in the last three years has permitted highly qualified applicants to be taken on.

5. The new Integrated Financial Market Supervision (FINMA)

Parallel to the reorientation of insurance supervision, the work on the imminent creation of integrated financial market supervision is continuing. This also a challenge for FOPI. With the implementation of the new supervisory philosophy, the creation of the SST as a significant supervisory instrument for assessing solvency, together with the international assimilation of Swiss insurance supervision, we are well equipped for the FINMA reform project. FOPI will also be able to bring its know-how in to the new authority, in particular in the sectors of principle-based supervision and direct supervision.

Structure and entry into force of the new law on the supervision of private insurance companies

On 17 December 2004, the Parliament adopted the total revision of the new Federal Law on the Supervision of Insurance Companies (Insurance Supervision Law, ISL, Federal Gazette 2004 7289, Classified Compilation of Federal Law 961.01). The ISL provides the foundation for the Ordinance on the Supervision of Private Insurance Companies of 9 November 2005 (Supervision Ordinance [SO], Classified Compilation of Federal Law 961.011) and for the FOPI Ordinance on the Supervision of Private Insurance Companies (FOPI Supervision Ordinance, FOPI-SO, Classified Compilation of Federal Law 961.011.1), which constituted a focus of FOPI's work in the last year.

The new law continues to focus on securing the solvency of the insurance companies subject to the law and on fighting abuses. The main goals of the revision – securing the long-term stability of the insurance companies, improving the protection of policyholders, and incorporating the most important developments in the EU – were achieved by means of the following amendments, which are for the purpose of a better understanding outlined briefly below:

- With the new ISL and the SO, the Swiss Solvency Test (SST) and thereby also a new risk-based supervision philosophy have been introduced as a model for determining the risk capacity of insurers.
- The new ISL partially replaces preventive product supervision with tightened solvency supervision, which in turn has required amendment to the Insurance Contract Law (ICL, Classified Compilation of Federal Law 221.229.1) to improve transparency through new information requirements. In the socially sensitive areas of occupational pensions and supplemental health insurance, the Parliament retained preventive approval of insurance products.
- To improve consumer protection, insurance brokers are now also subject to supervision. A public register is being compiled for this purpose. Entry into the register, which requires professional, personal, and financial qualifications, is mandatory for independent insurance brokers and voluntary for other insurance brokers.
- Likewise for reasons of consumer protection, transparency has been improved in the various insurance sectors.
- The new ISL establishes the express legal foundation for specific supervision of groups and conglomerates.
- All insurance companies are now required to specify a responsible actuary to assess entrepreneurial risks.
- The penalties for misdemeanours and infractions have been tightened considerably.

In parallel with the Insurance Supervision Law and in the framework of the final clauses of the Act, various other enactments have also been partially revised. The most important of these are:

- Through a partial revision of the ICL, important concerns have been implemented, especially with respect to consumer protection.
- Through a revision of the Federal Act on Banks and Savings Banks (Banking Act, Classified Compilation of Federal Law 952.0) and the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, Classified Compilation of Federal Law 954.1) the provisions on group and conglomerate supervision have been harmonized with the provisions in the insurance sector.
- Finally, the five previous supervisory enactments have been repealed simultaneously with entry into force of the new Insurance Supervision Law.

Structure of the new supervision

In drafting the new ISL, the SO, and the FOPI-SO, the basic decision was made to consolidate the previously highly fragmented supervision law into fundamentally one enactment each at the levels of legislation, ordinance by the Federal Council, and ordinance by the Federal Office. Just as the new ISL replaces five previous laws, the new SO and FOPI-SO subsume 11 previous Federal Council ordinances and decisions and several unpublished directives at the departmental and office level.
With its high number of delegation norms, the new ISL has the character of a framework enactment. For this reason, it only lays down principles in many areas and leaves the specification of the details in a wide range of matters to the Federal Council and FOPI at the ordinance level.
Finally, the new ISL has assigned a whole series of complex and elaborate new areas and responsibilities to insurance supervision, which necessarily entails an extensive regulation of details.
However, as extensive as the SO and the FOPI-SO may appear, their length is no greater than the total of the supervisory enactments they subsume, despite the fact that they also regulate additional responsibilities of the supervisory authority.
A clear structure of the SO, which largely follows the structure of the new ISL, facilitates orientation and as a rule allows the same matters to be found under the same headings as in the Act.

Relationship with European law

Already when it was initially drafted, the Insurance Supervision Law aimed to be compatible with Europe. The Supervision Ordinance embodies this principle in detail:

- The newly created SST anticipates significant indicators of the EU project „Solvency II“, which is based on „Basel II“ in the banking sector and is still under development. The circles of the EU working on Solvency II have paid very close attention to the development of the SST and have repeatedly praised the resulting method and deemed it compatible with Europe.
- In addition to Solvency II, the new supervision law also continues to take into account the currently valid solvency system of the EU, „Solvency I“, which will continue to be valid even after Solvency II is introduced. In contrast to the previous law, however, not all of the details of these existing solvency regulations are included in the ordinance (as is also the case in the ISL), since the insurance agreement between Switzerland and the EEC of 10 October 1989[1] and the agreement with the Principality of Liechtenstein of 19 December 1996[2], which implement the Third Insurance Directive of the EU, are directly applicable[3].
- Group and conglomerate supervision largely corresponds to the relevant EU directives, not least of all with the aim of actively including Switzerland in EU group supervision according to the Helsinki Protocol. The contacts established for this purpose with the responsible authorities in the EU Member States have developed in a positive manner, and the equivalence of the Swiss regulations with the EU regulations has been formally recognized. This recognition of equivalence is important, since only in this way can Switzerland be recognized by the EU as a lead coordinator or co-coordinator for the supervision of insurance groups and financial conglomerates headquartered in Switzerland. Without this recognition, the Swiss insurance groups and conglomerates in the EU would be subject to additional supervision. Moreover, the provisions on group and conglomerate supervision also re-establish the equivalence of the supervision system in Switzerland with that of the Principality of Liechtenstein. This equivalence was a precondition for concluding the abovementioned insurance agreement with the Principality of Liechtenstein.
- The regulation of brokers is also based on the corresponding EU regulations.

[1] Classified Compilation of Federal Law 0.961.1
[2] Classified Compilation of Federal Law 0.961.514
[3] See point 1.1.1.5 in the Report to Parliament of 9 May 2003 on the ISA, Federal Gazette 2003 3789

Entry into force

All interested circles considered the new Insurance Supervision Law to be urgent – even if for different reasons. It will strengthen the insurance sector in Switzerland, even if it imposes significant responsibilities on the individual companies. It will significantly improve consumer protection. And it will provide adequate tools for the supervisory authority to monitor the complex structures of globally operating insurance companies. The ordinance provisions required to implement the Law have been drafted with the utmost care.

Because of the diverse and far-reaching amendments to supervision law, the transitional provisions of the SO contain numerous detailed and balanced transition periods.

Pre-contractual information requirements

The Swiss Insurance Association requested deferral of entry into force by one year of the provisions concerning the information requirements for insurance companies according to Arts. 3 and 3a of the revised ICL and the provisions concerning the information requirements for insurance brokers according to Art. 45 of the new ISL. The Association justified this request by claiming that insurance companies would be unable to provide the required documentation in a timely manner to comply with the information requirements relating to policyholders in conformity with the law.

The Federal Council saw no reason to defer entry into force of Art. 45 of the new ISL. The content of the information requirement for insurance brokers had been known to the insurance industry since adoption of the legislative proposal by Parliament on 17 December 2004. Moreover, the Federal Council regarded the implementation of this information requirement as straightforward, since this provision has no effect on existing insurance contracts; to this extent, it does not require any particular preparatory measures. In the end, the interest associations of the independent insurance brokers did not speak out in favour of a deferral of entry into force of this provision.

However, the Federal Council decided to allow the request for deferral of entry into force of Arts. 3 and 3a of the ICL. These provisions require a high degree of standardization of information, since thousands of products and hundreds of thousands of insurance contracts are affected. Since, according to the Swiss Insurance Association, the insurance companies would not be able to provide all documentation in a timely manner, entry into force of these provisions on 1 January 2006 would therefore have resulted in a violation of the new information requirements in the case of most insurance relationships. This would have given the affected policyholders a right to cancel their contracts, and the legal validity of the contracts would have been in limbo for up to a year. To prevent this legal uncertainty, Arts. 3 and 3a of the ICL will only enter into force on 1 January 2007.

Money laundering supervision of insurance brokers

In the final clauses of the new ISL, Art. 2, para. 2c of the Money Laundering Act (MLA) has been amended to make independent insurance brokers subject to FOPI supervision with respect to measures to combat money laundering. Prior to the amendment, they had been subject to the Money Laundering Control Authority (MLCA) in their capacity as financial intermediaries. With the proposed amendment, the legislative power intended to make dual supervision of insurance brokers impossible. In the meantime, it has turned out that insurance brokers will hardly be able to avoid dual supervision completely, since they often are also engaged in other business relevant to money laundering that is not subject to insurance supervision, in addition to insurance mediation. Moreover, many independent insurance brokers already belong to a self-regulation organization that is subject to the Money Laundering Control Authority. On the one hand, the independent insurance brokers would then be forced to either subject themselves directly to FOPI or to join a self-regulation organization subject to FOPI for money-laundering-related supervision of their mediation business. On the other hand, it would not make sense to incorporate non-insurance supervision in FOPI with respect to brokers who primarily engage in other financial business; for them, remaining directly or indirectly within the scope of supervision of MLCA would be obvious. The self-regulation organizations themselves would then likely have to place themselves under the supervision of both authorities, which would lead to conflicts of responsibility. Furthermore, the money-laundering supervision of insurance brokers by FOPI envisaged by the ISL would entail considerable costs on the part of the insurance brokers themselves, but also and in particular on the part of FOPI, which for the foreseeable future will be lacking the necessary human resources for the additional money-laundering supervision of the approximately 3000 independent brokers.
In its framework decision of 24 November 2004 relating to the creation of the integrated financial market authority FINMA, the Federal Council concluded that MLCA should also be incorporated into FINMA. With the „fusion" of the two contact authorities for insurance brokers, namely FOPI with respect to insurance and MLCA with respect to other financial intermediary activities, the danger of dual supervision automatically becomes moot. The envisaged amendment to the Money Laundering Act therefore becomes irrelevant.
For this reason, the Federal Council has decided that the amendment to Art. 2, para. 2c of the MLA shall not enter into force. In its draft of the Federal Law on Swiss Financial Market Supervision (Financial Market Supervision Act; FINMA; Federal Gazette 2006 2829), the Federal Council additionally proposes that Parliament repeal this legislative amendment.

Outlook

After the phase of redesigning supervision law, there now follows a phase of implementation and consolidation. Nevertheless, work is already underway relating to a partial revision of the new Supervision Ordinance: The extent of the storm damage of last summer appears to necessitate an increase in coverage for the insurance of chattels and buildings against natural hazards from CHF 250 million today to CHF 1 billion each.
At the same time, the regulation of deductibles, which has largely remained the same for more than 20 years, will be adapted to current circumstances. The partial revision of the SO is expected to enter into force on 1 January 2007.

Swiss Solvency Test: Field test with 45 insurers

The Swiss Solvency Test (SST) is a supervision tool that measures the risks of an insurance institution and its ability to bear them. The SST provides the basis for quantitative and also qualitative risk-based supervision.

After a first field test two years ago, a second field test with about 45 insurance institutions was conducted in 2005. The SST has also been further developed.

2005 test run
The objectives of the 2005 test run of the SST were: (i) to verify the applicability of the SST in the insurance industry, (ii) to prepare the insurance industry for the coming introduction of a mandatory SST, and (iii) to recognize weaknesses in the current version of the SST.
At the beginning of 2005, about 45 insurance institutions declared their willingness to participate in a test run. To prepare these and other interested parties for the test run, several courses on the SST were offered in Biel in the spring, in collaboration with the Swiss Association of Actuaries (SAA). As part of these courses, the principles of the SST and the standard model were explained.
The 45 interested insurance companies conducted the test run by the end of September. The supervisory authorities compiled and evaluated the results and discussed them individually and in working groups with the companies. The results of the test run:

- First, it turned out that conducting the SST requires significant effort depending on the size and complexity of the company, but that this effort is compensated by significant value in the shape of insights gained by the insurers and the supervisory authority. In the case of some companies, the SST resulted in a series of tasks that would also have been necessary to undertake in the coming years even without the SST.
- As a further result, the test run showed the participating companies where they stand with respect to a large number of values in comparison with the other test participants and the market averages. This type of comparison makes it easier for the individual company and the supervisory authority to recognize anomalies.

Development work
In 2005, the SST was further developed in several different directions. Progress was made in designing the standard model, and the supervisory authority used several working groups to discuss questions of further development, especially the circumstances under which the standard model can be partially or completely replaced by an internal risk model.

Standard model
The development work on the standard model took place before the test run was conducted and again after it was concluded. The focus was not primarily on adjustments to the model structure, since the structure had already proved reliable in a previous test run, but rather on the calibration of parameters and the specific modelling of certain risks, such as natural hazards.

Internal models and effects within insurance groups
For an internal risk model of an insurance company to be used in the SST, several preconditions must be fulfilled. A working group determined what these preconditions are. As a result, requirements were established for the technique of the internal model and for the way in which the internal model is embedded in the insurance institution.
Closely related to the issue of the internal models is the question of how risk effects arising in insurance groups must be taken into account.
The treatment of this topic was advanced in 2005, resulting in the formulation of a consistent reference model. The internal models of insurance groups must now be measured against this reference model.

Modelling of obligations with respect to occupational pensions

The obligations of insurers offering occupational pensions gave rise to intense debates with respect to their variability and their modelling. For this reason, several models where used in the 2005 test run for the evaluation and independence of external economic parameters, especially interest rates. For the coming test run in 2006, the supervisory authority will require that one of these methods be used by each of the test participants.

International contacts and cooperation

It is important for the acceptance and the success of the Swiss Solvency Test that its characteristics do not deviate too strongly from the legislative requirements in other countries. This means that the design of the SST must take into account how the risk-based systems of other supervisory authorities and supervisory instances are developing. It is therefore necessary to gain a clear picture of other systems. Since some of these systems, such as the Solvency II project of the European Union, have not yet progressed as far as the SST, there is conversely also a great interest on the part of the developers of these systems in the experiences that Switzerland has already gained with the SST. This mutual interest entails that a vibrant exchange between Switzerland and other countries took place and continues to take place on the SST.
In this connection, FOPI held many lectures on the SST at universities, insurance supervision authorities, the European Commission, CEIOPS, etc.

Outlook

As of January 1st 2006, the SST is mandatory for large insurance companies. Moreover, business in foreign branches must now also be taken into account in the modelling; this was not yet considered by most participants in the 2005 test run. In the future, work on the SST will focus increasingly on the evaluation of results from its application and on discussions concerning internal models and their assessment.

The Swiss Solvency Test

The Swiss Solvency Test (SST) is a supervision tool that measures the risks of an insurance institution and its ability to bear them. The SST provides the basis for quantitative and, to a large extent, qualitative risk-based supervision.
The first of two major components of the SST is the available economic capital of an insurance institution. This capital is termed „risk-bearing capital“ (RBC). It indicates how great the capacity of the insurer is to absorb business fluctuations on its own, without infringing upon the claims of the policyholders.
The second major component is the target capital. This is the quantification of the risks to which the insurance institution is exposed. The target capital is the lower limit for RBC. If RBC falls below this threshold, the capital is insufficient, since the capacity to bear risks in this case is lower than the risks assumed.
The SST is founded on several general principles that the measurement of risks and risk capacity must fulfil. To determine the risk-bearing capital and the target capital, the insurer may use its own model (i.e. an internal model) or the standard model of the SST.
The system was developed under the guidance of FOPI in close cooperation with representatives of the insurance industry and academia. The development work has not yet been concluded.

SST in an international context

Broad support for SST and convincing results
The implementing provisions for the new Swiss Solvency Test (SST) and its application by insurance companies are not the result of a small group of academics in an ivory tower. The methodology and numerous details of the SST were developed under the clear guidance of FOPI in close cooperation with the Swiss Actuarial Association (SAA), the Swiss Insurance Association (SIA), the experts in individual insurance companies, audit companies, consulting offices, and institutions of higher learning. In addition, consultations were conducted to include to the extent possible the experiences of competent conversation partners in the European Union with respect to the analogous EU project „Solvency II“ and of experts working in selected supervisory authorities of other countries that are particularly advanced in the field of risk-based supervision systems (especially the UK, the Netherlands, Canada, and Australia).
To determine certain parameters, to verify model assumptions, and to assess the applicability of the SST to small insurance companies, test runs were conducted in the insurance companies in 2004 and 2005. The findings of these test runs have attracted the interest not only of the insurance industry itself, but also of EU authorities and international authorities dealing with questions of risk-based solvency supervision. One important finding of the 2005 test run is that the results of the SST only minimally correlate with the „Solvency I“ method used so far, especially in the case of indemnity insurers. This leads to the conclusion that the previously used solvency margin only is a weak indicator of how well an insurance company can bear the economic risks associated with its business.

International recognition for the SST
The SST accordingly enjoys broad support and recognition at the international level. In 2004, a joint analysis by the Comité Européen des Assurances (CEA) and Mercer Oliver Wyman, in cooperation with the member associations, investigated existing and projected solvency systems. The analysis concludes that the SST is currently the only tool for the evaluation of the solvency of insurance companies that fulfils all the criteria for a solvency assurance system providing guarantees, as determined by the International Association of Insurance Supervisors (IAIS), the International Association of Actuaries (IAA), and the EU. Analogous surveys with similar results have been conducted by the management consulting company Towers Perrin Tillinghast, KPMG Fides, Coopers & Lybrand, and Ernst & Young. As part of its own „Solvency II“ project, the EU Commission is therefore interested in discussing the SST and its incorporated scenario model with FOPI experts.

First consequences of the introduction of the SST

In the framework of its periodic evaluation of the economic and financial situation of its member States and as part of its economic policy monitoring activities, the International Monetary Fund (IMF) recently showed particular interest in the entry into force of the SST in Switzerland. The experts of the IMF certified that insurance supervision will be better able to gauge systematic risks thanks to the new supervisory tools. Accordingly, the IMF will use the follow-up evaluation scheduled for November as part of the Financial Sector Assessment Program to consider the application and the results of the SST as a tool for securing the stability and the solvency of the insurance sector.

The development and entry into force of the SST undoubtedly contributed to the recent agreement by the supervisory authorities of the EU Member States to sign a Memorandum of Understanding (MOU) with Switzerland, which in particular will facilitate increased inclusion of FOPI in the supervision of insurance groups in the EU. This raises the prospect of easing the costly placement of Swiss insurance groups under additional group supervision within the EU (see also section on „International developments“).

Implementation of transparency requirements by life insurers with respect to occupational pension plans

Background

With the goal of strengthening the confidence of policyholders in their pension plans, the legislative power enacted the first revision of the Federal Law on Occupational Old Age, Survivors' and Invalidity Pension Fund (BVGA) and issued new transparency requirements for all institutions dealing with occupational pension plans. This was undertaken in different forms for personnel welfare institutions on the one hand and for private life insurers on the other. Of decisive importance for private life insurers are the inclusion of Art. 6a in the Life Insurance Law currently in force and the transparency prescriptions newly incorporated into the Federal Law on Occupational Old Age, Survivors' and Invalidity Pension Fund (BVGA). These new prescriptions govern the information requirements in relation to insured personnel welfare institutions and insured employees. In addition, limitations of the surrender deduction upon contract cancellation, the transfer of pension pools from one personnel welfare institution to another, and the assessment and distribution of surplus participation to policyholders are regulated.

Implementation of the transparency requirements

The implementation of the extensive transparency requirements was very complex and required substantial effort on the part of FOPI, but also on the part of the affected insurance companies. The implementation work had to be conducted rapidly and consistently to meet the introduction deadlines required by the legislative power.

The new transparency requirements entailed the following essential measures to be implemented in 2005, which are specified in the comments on the relevant ordinances and in the circular of 30 April 2004 issued by FOPI to the private life insurers offering occupational pension plans:

- Separation of a special safety fund for occupational pension plans (beginning in 2006, safety funds will be labelled as bound assets);
- Compilation of annual operating accounts for occupational pension plans, indicating in particular the administrative and sales costs;
- Issuing of regulations on calculating and distributing surplus participation, and introduction of a minimum rate for the benefit of the insured personnel welfare institutions and the insured employees for the occupational pension insurance plans offering surplus participation.

Partition of the safety fund

Of particular importance was that the partition of the safety fund was administered properly as a first major step, i.e. that no insurance pools or even third parties were advantaged or disadvantaged. As part of this process, the obligations for occupational pension plans and the assets covering these obligations had to be separated from the assets and liabilities of the insurer's remaining activities. On the basis of these requirements, FOPI defined the principles according to which the partition had to be undertaken. FOPI examined both the partition models of the providers as well as compliance with the principles in assigning the assets included in the formerly jointly administered safety fund to the separate safety funds.

Operating accounts

In order for the operating accounts to include the information necessary for the required degree of transparency, FOPI developed comprehensive targets and a reporting format. In particular, the operating accounts must include an income statement, a balance sheet total, the technical breakdown of the result, and information on the structure of the occupational pension pool. In this way, the operating accounts facilitate an effective and efficient verification of compliance with the various new legislative prescriptions.

Minimum rate

The minimum rate is the minimum share of the generated surplus available to the insured personnel welfare institution and the insured employees. The point of departure for determining this minimum rate is the abovementioned annual operational accounts for occupational pension plans. These accounts were compiled for the first time in the operating year 2005. The technical breakdown of the result precisely mirrors the ordinance

prescriptions governing the determination of the minimum rate (Supervision Ordinance, Arts. 139 – 153, in force since 1 January 2006).
Of particular note is that the basis for calculating the minimum rate depends on the earnings situation of the life insurer and the amount of the BVG minimum interest rate (Supervision Ordinance, Art. 147). Depending on the market and BVG interest rate situation, either the earnings-based or result-based minimum rate is used. Earnings-based means that the total benefits paid to the policyholders must reach at least the amount of the minimum rate of the total earnings. This means that the insurer receives at most 10% of the total earnings. The remaining 90% or (as a rule) more is paid out to the policyholders. The result-based distribution provides that the policyholders receive 90% of the result and the insurers receive 10%. As long as the market interest rate level remains low – and several important indicators currently support this assumption – the earnings-based approach applies. This means that at least 90% of the cumulative earnings, as derived from the operating accounts, are to be used for the benefit of the insured personnel welfare institutions and the insured employees.

Responsibility of life insurers
In the area of occupational pension plans, life insurers offer various forms of full insurance and reinsurance solutions. In this way, companies may, if they so desire, provide complete or tailored insurance solutions for occupational pension plans, both with respect to mandatory and above-mandatory benefits. The solvency requirements for life insurers, which were improved by the new Insurance Supervision Law, ensure that, to a high degree of certainty, no shortages of cover will occur in the future, and therefore that the insured personnel welfare institutions and insured employees will not be hit by back-payment requirements or restructurings.
The solvency requirements entail the allocation of risk-bearing capital that protects the community of policyholders against the risks assumed by the life insurer. The share of at most 10% of the cumulative earnings for the benefit of the life insurer, as calculated according to the abovementioned minimum rate, enables the necessary risk capital to be built up or to be purchased from the market in conformity with market conditions.
In this way, the foundation is established for life insurers to continue to assume responsibility for their product offerings with a high level of insurance protection and with guarantees in relation to the insured personnel welfare institutions and insured employees.

Consequences of the new ISL for Swiss insurance groups and conglomerates

With the entry into force of the new Insurance Supervision Law (ISL), the Federal Office of Private Insurance (FOPI) is given an explicit legal foundation for the consolidated supervision of groups and conglomerates. In addition to the conglomerates already subject to supervision, FOPI will now also be able to consider insurance groups in a consolidated manner. The group and conglomerate supervision described in the legal foundations is equivalent to that in the EU, which represents an important precondition for Switzerland to coordinate or even lead international supervision of Swiss groups throughout Europe.

Background
According to the new Insurance Supervision Law, FOPI has the option of placing insurance groups and insurance-based financial conglomerates under consolidated supervision. The legislative power does not expressly specify under what conditions a group or conglomerate must be placed under additional supervision. The criteria can, however, be derived from the purpose of the supervision in the narrower and broader sense, namely ensuring solvency, ensuring financial stability, and preventing distortions of the market and competition. The proportionality of additional regulation must also be included in these considerations, since consolidated supervision, given that it is supplementary to individual supervision, is very extensive and accordingly also represents additional costs and efforts for the group or conglomerate in question.

Criteria for group supervision
Based on these considerations, the following criteria can be derived for group supervision:
- Internationality: In the case of groups that have subsidiaries abroad, FOPI can only fully exercise its responsibilities if it also has an overview of the mutual influence of all enterprises within a group, in addition to information on the individual companies at home.
- Complexity: Additional supervision is necessary and appropriate if a group's structure is complex and therefore contains many companies in different business sectors.

The application of these criteria has resulted in ten Swiss groups being placed under FOPI group supervision.

Criteria for conglomerate supervision
In the case of conglomerate supervision, which is exercised in addition to group supervision, the legislative power again gives FOPI discretion by providing for conglomerate supervision only if the conglomerate operates a bank or securities trader of significant economic importance along with its insurance activities. When assessing the importance of the bank component within the conglomerate, FOPI bases its considerations on the relevant EU regulation, which makes the economic importance dependent on the balance sheet total of the bank or securities trader and on its share in the solvency requirements.

Content of consolidated supervision
An important focus of the new FOPI supervision is the assessment of the risks assumed. Companies within a group or conglomerate are exposed to additional risks, such as group-internal contagion. The risks may also be focused on certain individual companies within a group or conglomerate. The most important tools of consolidated supervision therefore deal with:
- risk management
- calculation of risk-based solvency (Swiss Solvency Test, SST – as implementation of Solvency II)
- risk concentrations

Additional important elements of consolidated supervision are:
- organization
- „fitness and properness“ of the management and the board
- group-internal transactions
- group or conglomerate structure
- financial situation
- solvency according to business volume (Solvency I)

In addition to certain requirements imposed by FOPI in these areas, the group or conglomerate is also required to submit documentation regularly. In some areas – such as reports on the financial situation or solvency – the reports must be submitted semi-annually, otherwise annually. Particularly with respect to group-internal transactions, group or conglomerate structure, and „fitness and properness", an ad hoc report must be submitted if important changes occur. In addition, the group or conglomerate has a general information obligation in relation to the supervisory authority.

Cooperation with foreign supervisory authorities

Regulation in the EU

The groups and conglomerates are also subject to consolidated supervision within the EU. The directive on the supplementary supervision of insurance undertakings in an insurance group was adopted in October 1998 and had to be implemented into the national law of the individual Member States by June 2000. Supplementary supervision of the enterprises in a financial conglomerate was adopted in December 2002 and had to be implemented into national law by the middle of 2004.

The conglomerate directive requires verification that conglomerates domiciled in a country outside the EU are subject to equivalent supervision in their home country.

In accordance with a general recommendation of the financial conglomerate committee of the EU issued in July 2004, Switzerland – like the United States – fulfils the equivalence requirements. This recommendation must be verified by the affected EU countries for each Swiss conglomerate. The significance of the equivalence declaration is not clearly regulated. It could, however, entail that Switzerland may assume coordination and leadership of the European supervisory authorities for international supervision of the Swiss conglomerates. The British Financial Services Authority (FSA) shares this interpretation in its national implementation of the conglomerate directive.

This would lead to supervision of Swiss conglomerates at home and to an easing of the reporting requirements. Since all authorities supervising a company of the conglomerate depend on information concerning the conglomerate, however, Switzerland must also be able to exchange information and cooperate with other supervisory authorities.

Model agreement for international cooperation

On the recommendation of FOPI, the Federal Council adopted a model international agreement on 29 June 2005 that paves the way for FOPI to cooperate with foreign supervisory authorities. This laid the formal cornerstone for the conclusion of Memoranda of Understanding (MOUs) between FOPI and the equivalent supervisory authorities abroad.

Agreement with the EU/EEA

Based on this model, a concrete MOU has been drafted in the meantime that concerns information exchange and cooperation with the EU/EEA supervisory authorities. Detailed negotiations on individual sentences and even individual words took place until all 25 Member States of the European Union and the three additional representatives of the EEA were able to consent to this agreement. In a further step, Switzerland and the EU/EEA States will sign the agreement.

The content of this memorandum includes the principles and the framework delineated by this declaration of intent, as well as concrete cooperation in the supervision of groups and conglomerates. Furthermore, the processes for information requests and cooperation are enumerated, and the permissible use of the exchanged information, including the confidentiality of data, is regulated.

The supervision of reinsurers

With the new Insurance Supervision Law (ISL) and the corresponding ordinance, which entered into force on 1 January 2006, the supervisory powers of the Federal Office of Private Insurance (FOPI) have been expanded with respect to reinsurers.

The most important improvements

- The new ISL legally incorporates the Solvency I requirements for reinsurance companies. To a significant extent, Switzerland has thereby anticipated the EU directive for reinsurers.
- The Swiss Solvency Test (SST) has been introduced. Given that reinsurers differ considerably from each other, no standard model has been developed. The SST for reinsurers is based exclusively on internal models.
- The ISL now lays down the basis for verifying actuarial reserves.
- Minimum capital requirements are now incorporated into law. The minimum capital for captive reinsurers has been increased relative to the old practice.

Dynamic reinsurance market

The reinsurance market is very dynamic. The work of the Reinsurance Division is greatly influenced by this dynamism. In 2005 alone, seven companies were granted operating licences. Two companies were released from supervision. As a consequence, the Reinsurance Division is particularly heavily engaged in reviewing licence applications and supervising run-off companies in addition to its traditional activities, such as reviewing the reports to FOPI and conducting inspections. Among professional reinsurers alone, three companies are currently in run-off. Determining the risk-based solvency requirements is a particular difficulty in reviewing licence applications. This is especially true for reinsurance captives with their unbalanced portfolios.

Market developments

Reinsurance supervision has also been affected by several market developments:

- Last year, the Alea Group was hit particularly hard by the effects of adverse loss developments stemming from U.S. liability claims between 1997 and 2001. After being downgraded twice by Standard & Poor's, Alea Europe did not renew its portfolios as of 1 January 2006 and sold the renewal rights to SCOR.
- Several companies suffered huge losses arising from the hurricanes in the United States. Two companies have meanwhile been recapitalized.
- The planned acquisition of General Electric Insurance Solutions by Swiss Re is a huge step in the consolidation process of the reinsurance market. Review of the planned transaction already took up much of FOPI's time in 2005 and will continue to do so in 2006.
- Finite reinsurance is still a current topic. In recent months, a reinsurance company had to perform a restatement of its accounts from previous periods due to incorrect entry of non-traditional reinsurance contracts. FOPI already conducted a survey on finite reinsurance in the context of 2004 reporting. This is likely to be repeated within the framework of Annual Report 2005. In addition, FOPI held several coordination meetings on this topic with auditors.
- In the past year, it became very clear that effective supervision of reinsurers cannot rest solely on the monitoring of individual legal entities. Since reinsurers are particularly likely to be components of international groups, group supervision is also necessary. Currently, group supervision has only been implemented for Swiss Re. With a Memorandum of Understanding, FOPI now has the legal means to introduce group supervision for other groups and, where appropriate, to act as lead supervisor.

Outlook
Many of the market developments mentioned above will continue to shape our work in the future. We assume, however, that the current and the following year will be particularly affected by the implementation of expanded reinsurance supervision. Of particular note in this connection are the review of internal reinsurance models and the review of their claims reserves.

The establishment of broker supervision

The adoption of the new Insurance Supervision Law (ISL) by the Federal Parliament on 17 December 2004 was the starting point for the establishment of insurance broker supervision in Switzerland, based on EU Directive 2002/92/EC on insurance mediation. Harmonization of the regulatory environment within Europe was a central concern. At the same time, consumer protection demanded greater control of insurance brokers and greater transparency. With the introduction of the new ISL as of 1 January 2006, Switzerland has now established equivalent supervision.

12 months were available to implement the Insurance Supervision Law and Ordinance with respect to insurance brokers. In this short time, the requisite organization was developed in addition to a demanding IT project.

First eGovernment application of the Confederation

The IT application, the heart of broker supervision, must fulfil several requirements. First, it should enable the assignment of different roles and rights to different actors – the supervisory authority, brokers, and consumers. Second, it should enable electronic payment of the registration fee, and third, it should fulfil the requirements of the Confederation with respect to barrier-free access. The broker gateway that went online on 1 January 2006 fulfils these requirements:

- It permits the insurance broker to register electronically in the protected area (extranet). Acting as the administrator, the supervisory authority conducts the review on the intranet, and the public can access the register on the internet.
- The electronic payment of the registration fee was solved by means of a complete eGovernment solution – the first of the Confederation.
- The federal requirement of barrier-free internet access was integrated into the application.

The design of the website paid attention to user-friendly navigation and the sparing use of tables to accommodate people with disabilities.

The IT application was realized with the help of an external provider who was selected in accordance with the strict submission requirements of the Confederation. Development within the Administration was not possible because of time and resource considerations. To better understand the needs of insurance brokers, a test run with selected users was conducted during the development phase. The broker gateway went online on 3 January 2006. While technical teething troubles had to be dealt with in the first few days, the queries in the following weeks focused on aspects of content and law. The heterogeneous structure of the insurance mediation sector entailed and entails many extensive enquiries both within and outside FOPI. Over 1000 registrations have already been received in the first two months of 2006.

Organization

In addition to the IT platform, an appropriate organizational structure had to be developed. With an estimated 3000 to 5000 files submitted, the implementation of broker supervision has doubled the total annual file volume of the entire office. In addition to receiving first-time registrations, the submission of follow-up documents also had to be solved. In this regard, the workflow software introduced within FOPI plays a central role. Thanks to well-rehearsed logistics and temporary help, the first files were processed rapidly.

„Insurance Broker, Association of Insurance Professionals“ course

The supervisory authority has mandated the Association of Insurance Professionals to implement broker certification. This cooperation is founded on the Examination Rules for Obtaining Professional Certification as an Insurance Broker, issued by the supervisory authority on the basis of the ISL and the Supervision Ordinance (SO).
Through the „Insurance Broker, Association of Insurance Professionals“ course, the Association ensures that a training course is available to anyone interested which covers the knowledge targets required by the broker examination.
On application of the examination commission, the supervisory authority also decides on the equivalence of other professional qualifications. The broker examination is waived for anyone providing evidence of an equivalent certification. Equivalent professional certification entitles the insurance broker to be entered into the FOPI register.

Register and additional information:

Broker gateway of the Federal Office of Private Insurance
www.vermittleraufsicht.ch

Insurance protection against earthquake damage

There is no national insurance coverage for earthquake damage in Switzerland. In view of the medium-level earthquake threat in Switzerland, however, there is an objective need for such coverage. In a joint project facilitated by FOPI, the cantonal and private building insurers are therefore evaluating the options for a uniform insurance solution.

Background

Insurance against fire and natural hazards for buildings and vehicles is characterized in Switzerland by the dualism of public and private insurance activity. In 19 cantons, fire and natural hazard insurance for buildings is operated by cantonal building insurers with a legal monopoly and mandatory insurance, while private insurers operate in 7 cantons. A state monopoly exists in two cantons for private property insurance, while private insurers cover this risk in the other cantons. Earthquake damage, however, is excluded from insurance coverage in the case of both private insurers and cantonal building insurers. The canton of Zurich is an exception, the building insurance of which encompasses earthquake risk in return for an additional premium.

Both private property insurers and cantonal building insurers have voluntarily made financial means available for earthquake damage. In the legal form of a simple company, private insurers have created an „Interest Association for the Coverage of Earthquake Damage“, and the cantonal institutions have created an earthquake pool. However, neither do building owners have a legal claim to compensation, nor do the available financial means suffice to cover a large loss.

National insurance protection

Currently, there is no insurance that adequately covers earthquake damage nationally. Since Switzerland has a medium-level threat of earthquakes compared with other countries, an objective need exists for such coverage. The cantonal and private building insurers are therefore examining the options for a uniform insurance solution, as part of a joint project facilitated by FOPI. To make sufficient coverage available for a large loss, the insurance solution must be nationally based. The project was initiated in the spring of the reporting year. In addition to FOPI, which plays a facilitation role, the Swiss Insurance Association and the Association of Cantonal Fire Insurers are participating. Currently, the three working groups with equal representation are each considering a relevant topic area:

- The „Prevention“ working group is developing a model intended to incorporate the aspect of prevention optimally in the insurance solution;
- The „Insurance Product“ working group is considering the coverage and benefit aspect and is developing the foundations of a pricing model and effective claims service organization;
- The „Legal Foundations“ working group is examining the options for the legal basis of a joint project of private and cantonal building insurers and the legal preconditions for its realization.

At the beginning of 2006, the work resulted in a final report on the first project phase and the finding that the Swiss earthquake insurance project is feasible in principle.

Further steps
If the involved private and cantonal insurers agree to a continuation of the project, the planning and detailed elaboration of the insurance solution and a concept for implementation of effective prevention can be initiated. Based on the extensive and technically highly complex subject matter, no detailed information can currently be given on questions concerning coverage limits, deductibles, or premium amounts.

International developments

A small country like Switzerland depends on a functioning international network and international recognition, so that its administrative authorities and its private sector are not shut out abroad. Last year as in previous years, FOPI's resources – which were already tight due to the revision of supervision law – could only be employed to a limited extent for the cultivation of international relations. Nevertheless, FOPI faced the international challenges in several important areas. In addition to investing – sometimes heavily – in bilateral contacts, some focus areas stand out that are briefly described below:

International Association of Insurance Supervisors (IAIS)
FOPI participated in several committees, especially those concerning: Financial Conglomerates; Insurance Contracts; Insurance Fraud; Insurance Laws, Regulations and Practices; Enhanced Disclosure; Solvency and Actuarial Issues; Reinsurance and other forms of risk transfer; Reinsurance Transparency. Moreover, FOPI participated in the IAIS self-assessment.

Organisation of Economic Cooperation and Development (OECD)
FOPI is currently chairing the OECD insurance committee. In this context, FOPI held two plenary meetings and four working group meetings and represented the OECD at the International Insurance Forum in Beijing prior to the IAIS Triannual Conference.

European Union (EU)
In principle, the EU directive on supplementary supervision of insurance groups subjects insurance groups to EU group supervision even if they are headquartered in a third country. For Swiss insurance companies with business operations in the EU, this results in dual supervision. Within the framework of EU group supervision, FOPI's participation is indispensable for the assessment of the Swiss companies. Until recently, exchanges of the necessary information have proved difficult however. This is why FOPI has now negotiated with the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) a Memorandum of Understanding (MOU), which should facilitate their cooperation, to the advantage of Swiss insurance groups. On the basis of the Federal Council's authorisation (BRB of June 29, 2005), FOPI has also concluded such MOUs with almost all EU and EEA Member State supervision authorities. In addition to involving FOPI in EU's supplementary group supervision, the MOUs aim at better exchanges of information in general. Other countries (outside the EU) have in the meantime also indicated their interest in concluding MOUs with FOPI.

Conference of European Insurance Supervisors
Since 1995, FOPI has served as the Secretariat of the „Pan-European Conference" of insurance supervisors. It therefore participates in organizing the conference, which takes place every two years. In May 2005, the 18th conference was held in Prague, at which over one hundred participants, especially from Central and Eastern Europe, discussed current questions of insurance supervision and the insurance industry and then considered them in depth in a workshop. The next conference will take place in 2007 in Sofia, Bulgaria.

Exchange of experiences
The traditional German-language exchange of experiences with the insurance supervisors of Germany, Austria, and the Principality of Liechtenstein took place in Switzerland in 2005, for the second time jointly with the bank supervisors. – The fourth French-language exchange of experiences of the insurance supervisors of Belgium, France, Luxembourg, and Switzerland took place in Belgium. – Both meetings were, as always, characterized by intensive discussions on the newest developments in supervision and business.

Principality of Liechtenstein
The annual formal meeting of the Mixed Commission for the Swiss/Liechtenstein Insurance Agreement took place in December 2005, at which in particular the results of the appointed working group were adopted. The responsibility of the Mixed Commission, which it has successfully fulfilled so far, is to guarantee smooth execution of the agreement, especially if any problems arise from the crossborder conclusion of insurance contacts.

Article IV consultations
As every year, the International Monetary Fund (IMF) recently undertook a review of the situation of the Swiss economy (article IV consultations) in February 2006. This year, FOPI again participated in the consultations relating to the insurance sector (see also section on „SST in an international context“).

Financial Action Task Force (FATF) of the OECD
In 2005, the FATF conducted a comprehensive national examination of Switzerland in relation to the effectiveness of the measures for combating money laundering. FOPI participated in this national examination to represent the Swiss standpoint in the field of private insurances.
FATF certifies that Switzerland has achieved a high degree of implementation of the FATF recommendations, but it also diagnoses individual gaps in the Swiss countermeasures to combat money laundering and prevent financing of terrorism.

Swiss private insurers – a market overview

1. Introduction

As it did last year, FOPI again requested comprehensive data from insurance companies on their past business year even before compilation of their final report for 2005. All life and non-life insurers subject to the reporting requirement were requested to either submit final figures for the 2005 business year or, if necessary, to provide appropriate estimates. The insurers were required to submit the final figures for the 2004 business year at the same time as these preliminary figures for the 2005 business year.
In addition to analyses relating to the classic supervision tools – the solvency ratio (in accordance with Solvency I) and the cover of special assets – FOPI also requested key financial data. At the same time, the requested companies were required to expose their solvency ratios to three predefined stress scenarios. Finally, additional information on asset values was requested (including conversion of amounts reported according to regulations into a market-oriented presentation).
Our analyses and in particular the solvency review drew primarily on statutory figures provided by the life and non-life insurers. The specific risk profile and available economic capital of the individual company, however, is not taken into account within the framework of Solvency I. The Swiss Solvency Test (SST), which quantifies risks and juxtaposes them with the company's risk-bearing capacity, will provide the supervisory authority with the necessary risk-based tool.

2. Accounting principles

The supervised insurance companies are required to balance their statutory annual accounts according to the principles of the Swiss Law of Obligations. On the reporting date of 31 December 2005, the still applicable (old) insurance supervision law only provided for very few additional rules in accordance with special legislation concerning the accounting of insurance undertakings. Fixed-interest securities are an exception, which must be balanced at most at amortised cost.
Individual statutory account statements serve as the basis for applying the supervisory instruments, since the demands of insured parties primarily exist in relation to the legal unit. The assessment of the surplus allocations is also based on the statutory account statement of the individual insurance undertaking.

3. Summary of the findings of the market overview

The overall picture clearly shows that the trend of recovery of the Swiss insurance industry from the difficult years of 2001 and 2002 is continuing. An overview of the most important findings:

- The equity capital basis increased again significantly, especially in the case of life insurers, which again led to a higher average solvency indicator.
- The increase of the premium volume for non-life insurers was again striking. But also life insurers recorded a slight increase.
- In part also because of the flood damage from last August, non-life insurers were again confronted with higher expenditures for insurance cases, which resulted in a higher claims ratio. Only thanks to the reduction of operating costs (cost ratio) could the increase of the combined ratio be contained.
- Overall, the financial earnings are clearly above the level of the preceding period, also thanks to the positive development on the stock market, and have contributed to good overall results.

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

	Life insurers			Non-life insurers		
(figures in billions of CHF)	**2005**	2004	+/-%*	**2005**	2004	+/-%*
Earned gross premiums	**36.6**	36.4	+0.59	**47.6**	45.1	+5.54
Expenditures for insurance cases (gross)	**35.7**	39.9	-10.52	**35.5**	31.3	+13.54
„Claims Ratio“**	**n.a.**	n.a.	n.a.	**74.51%**	69.26%	+5.25
Financial earnings	**11.9**	10.7	+10.83	**4.2**	2.3	+85.86
Expenditures for insurance operations for own account	**3.5**	3.3	+9.14	**10.6**	10.3	+2.33
„Cost ratio“**	**11.24%**	10.41%	+0.83	**23.13%**	26.76%	-3.63
„Combined ratio“**	**n.a.**	n.a.	n.a.	**97.64%**	96.02%	+1.62
Reported equity capital***	**8.1**	6.7	+20.00	**20.6**	18.7	+9.81
Solvency ratio**	**247%**	216%	+31.00	**327%**	313%	+14.00
Cover margin of the safety fund (life insurers) / fixed reserve (damage insurers)	**11.1**	6.0	+85.69	**9.3**	8.3	+11.71

* also in the following tables, percentage deviations are calculated using the non-rounded figures
** actual deviation, not in per cent
*** before allocation of profits

Definitions:

„Claims Ratio“	Expenditures for insurance cases (gross) in relation to earned gross premiums
„Cost ratio“	Expenditures for insurance operations for own account in relation to earned gross premiums
„Combined ratio“	„Claims Ratio“ plus „Cost Ratio“
Solvency ratio	Available solvency margin (allowable equity capital) in relation to required solvency margin (required equity capital) in accordance with Solvency I

4. Most important supervision instruments for monitoring business activity

The insurance companies must submit a comprehensive report as of 31 December annually, as well as separate reports on special assets and derivative financial instruments. In addition, FOPI conducts periodic surveys of the year under review. In the event of special business incidents, the insurance company must inform FOPI immediately (e.g. when acquiring holdings).

Private insurers domiciled in Switzerland must fulfil certain solvency criteria, so that the claims of insured parties are guaranteed at all times. FOPI now primarily has two legally enshrined instruments at its disposal: special assets and the solvency margin.

4.1 Special assets

Capital investments in special assets (safety fund for life insurers, fixed reserves for non-life insurers) cover the necessary technical reserves (obligations in relation to insured parties) and are kept in a separate deposit. In the event of bankruptcy of an insurance company, these reserves are liable for the claims of insured parties above all other demands. FOPI specifies investment and assessment requirements for the capital investments in special assets. This helps achieve an appropriate diversification and prevents risks of over-concentration. The investments must be appraisable and convertible. A safety margin of 1% (2% in the case of non-life insurers) is added to the total amount of the necessary technical reserves.

Deficient cover of the special assets is already reached when the target amount (technical reserves + safety margin) is no longer completely covered. In this case, the insurance company is required to remedy the deficient cover immediately.

As of 1 January 2006, the Federal Council put into force the new Insurance Supervision Law and the new Supervision Ordinance. FOPI is currently undertaking to implement the relevant executing provisions in the form of „new investment directives“.

4.2 Solvency margin (Solvency I)

Equity capital resources are a determinative value in assessing the solvency of an insurance company. The higher the capital resources, the more risks an insurance company can assume. In an exceptional catastrophic case, the survival of the company largely depends on its own resources. While the relation between equity and borrowed capital is of considerable interest in the industrial sector, the relation between own resources and risks on the asset and liability side of the balance sheet is of foremost importance in the insurance sector. The solvency margin of an insurance company covers a part of the enterprise risks and is intended to secure the survival of the enterprise in an exceptional claims year. This general measure is determined by a prescribed model calculation and is based on the standards applicable in the EU. The entire amount of the solvency margin must be backed up by equity capital or borrowed capital with the character of equity capital. If this requirement is no longer met, the insurance company must submit a restructuring plan to FOPI. FOPI determines what requirements the restructuring plan must fulfil and by what deadline the measures provided for therein must be undertaken. Along with special assets, the solvency margin provides an additional protection of the insured parties from insolvency of the company.

4.3 Swiss Solvency Test (SST)

All of the following key data and analyses are based on the solvency definitions according to Solvency I. It is undisputed both in Switzerland and in the EU, however, that the definitions for calculating solvency according to Solvency I are insufficient. A comprehensive economic and risk-based perspective is only being provided with the introduction of the SST. Conducting the SST has been mandatory for large companies since the beginning of 2006, so that figures and analyses are not yet available for the year under review that cover the entire market. In 2005, however, a second field test with 45 insurance companies was conducted (see section on the SST).

4.4 Up-to-date picture of solvency

In addition to the annual, comprehensive reports, the insurance companies are traditionally already asked for account statement data in the spring. Along with figures that may in part still be preliminary, FOPI has again requested the insurance companies to supply various key data for 2005. Finally, the insurance companies subject to the reporting requirement are also requested to show the effects of three predefined stress scenarios on the solvency ratio.

These surveys allow the insurance supervisory authority to obtain a more up-to-date picture of the companies' solvency and to introduce any necessary measures.

5. Data of the year under review*

Figures in tables that are not expressly divided into business in Switzerland and business abroad refer to overall business.

5.1 Premiums

Development of earned gross premiums
Life and non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**49.7**	48.4	+2.76
Foreign business overall	**34.5**	33.1	+4.17
Total	**84.2**	81.5	+3.33

Total earned gross premiums increased relative to the previous year, both in Swiss business and foreign business.

Development of earned gross premiums
Life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**30.4**	29.5	+3.02
Foreign business overall	**6.2**	6.9	-9.91
Total	**36.6**	36.4	+0.59

While Swiss business shows overall growth despite the difficult environment, earned gross premiums in foreign business have decreased significantly.

Development of earned gross premiums
Non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**19.3**	18.9	+2.34
Foreign business overall	**28.3**	26.2	+7.84
Total	**47.6**	45.1	+5.54

In Swiss business and especially also in foreign business, the earned gross premiums decreased in the reporting period in comparison with the previous year.

*The survey figures from the 2005 business year are in part based on preliminary account statements of the insurance companies. In contrast, the figures published in this annual report for the 2004 business years are final. To this extent, there may be minor differences between the figures for the 2004 business year published here and those published in our 2004 annual report.

5.2 Insurance benefits

Development of the expenditures for insurance cases (gross)
Life and non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**45.8**	49.2	-6.77
Foreign business overall	**25.4**	22.0	+15.25
Total	**71.2**	71.2	+0.04

Looking at both business sectors combined, the expenditures for insurance cases remained stable relative to the previous period.

Development of the expenditures for insurance cases (gross)
Life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**31.0**	35.7	-12.93
Foreign business overall	**4.7**	4.2	+9.66
Total	**35.7**	39.9	-10.52

While the expenditures of life insurers for insurance cases were still slightly higher than the earned gross premiums in the previous year, they were slightly lower in the reporting period. The gross unearned premium reserve, however, increased by 3.31% to CHF 251.4 billion.

Development of the expenditures for insurance cases (gross)
Non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**14.8**	13.5	+9.54
Foreign business overall	**20.7**	17.8	+16.58
Total	**35.5**	31.3	+13.54

The development of the expenditures of non-life insurers for insurance cases was affected by the heavy storm damages in the year under review.

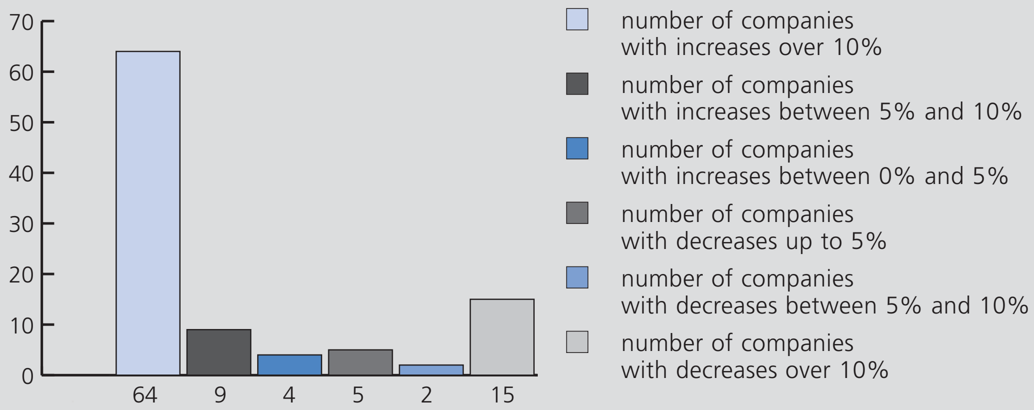
5.3 Financial earnings
(capital investment and interest earnings)

Development of financial earnings
Life and non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**12.4**	9.7	+27.21
Foreign business overall	**3.7**	3.3	+13.80
Total	**16.1**	13.0	+23.87

The financial earnings contain the direct capital and interest earnings, realized gains and losses on investments, all appreciation and depreciation on capital investments, and investment management costs.
The financial earnings are significantly higher than in the previous year. The most important item contained in the financial earnings, namely direct capital investment earnings, decreased slightly relative to the previous year, reflecting the still relatively low general interest rate level.
The overall share quota at slightly less than 10% is at a comparatively low level. The bull market in 2005 contributed to an improvement of financial earnings through appreciation (albeit not in every case).

Financial earnings: Entire market

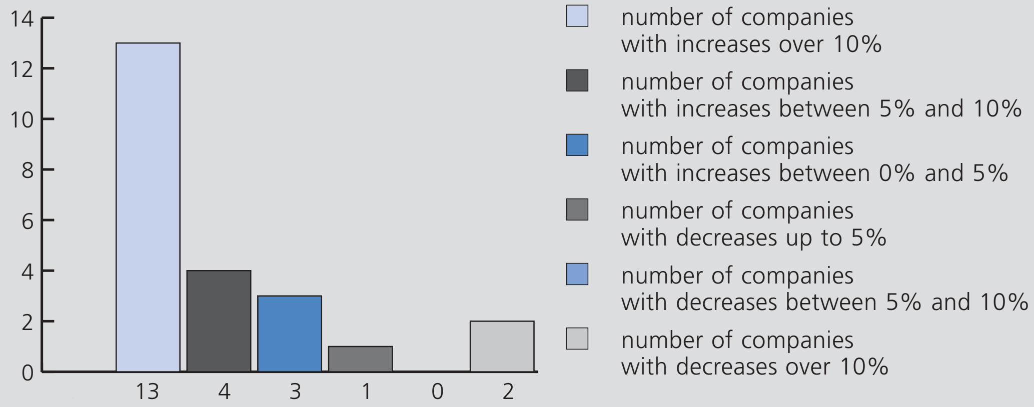


Development of financial earnings
Life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**10.3**	8.3	+23.68
Foreign business overall	**1.6**	2.4	-34.18
Total	**11.9**	10.7	+10.83

Overall, the development in Swiss business in the year under review was encouraging. The following diagram shows, however, that not all providers were equally successful.

Financial earnings: Life insurers

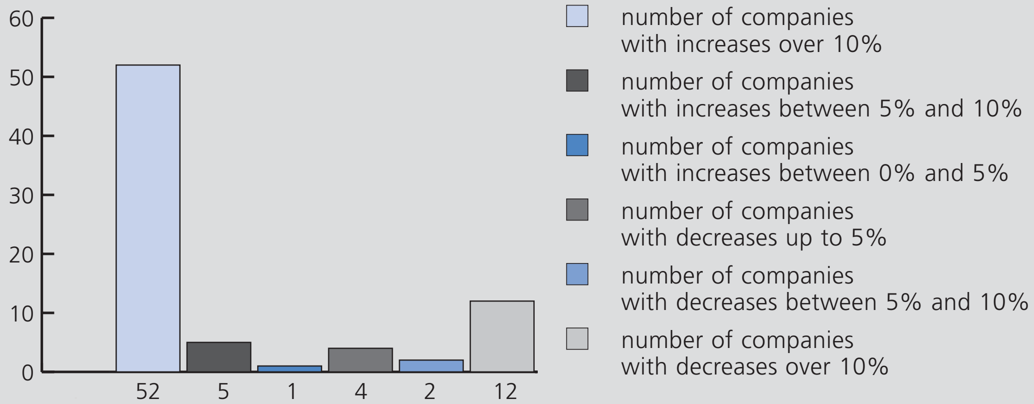


Development of financial earnings Non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**2.1**	1.4	+48.22
Foreign business overall	**2.1**	0.9	+147.78
Total	**4.2**	2.3	+85.86

Overall, the financial earnings of non-life insurers improved significantly. The following diagram shows how unequal the development was, with most insurers at the extremes:

Financial earnings: Non-life insurers



5.4 Administrative expenditures

Development of expenditures for insurance operations for own account
Life and non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**6.9**	6.7	+2.79
Foreign business overall	**7.2**	6.9	+5.06
Total	**14.1**	13.6	+3.94

Both life and non-life insurers experienced an increase of expenditures for insurance operations.

Development of expenditures for insurance operations for own account
Life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**2.6**	2.4	+9.26
Foreign business overall	**0.9**	0.9	+8.81
Total	**3.5**	3.3	+9.14

The expenditures for insurance operations increased both for Swiss business and for foreign business.

„Cost Ratio“
Life insurers

	2005	2004	+/-%
„Cost Ratio“	**11.24%**	10.41%	+0.83

Since expenditures for insurance operations increased relatively strongly compared to earned premiums, the „Cost Ratio“ deteriorated accordingly.

Development of expenditures for insurance operations for own account
Non-life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Swiss business overall	**4.3**	4.3	-0.74
Foreign business overall	**6.3**	6.0	+4.53
Total	**10.6**	10.3	+2.33

While the expenditures for insurance operations in Switzerland decreased slightly, they increased strongly for operations abroad. Overall, the increase is smaller than the growth of the earned premiums. Accordingly, the „Cost Ratio“ declined.

The claims and cost ratios of non-life insurers changed as follows:

Claims and cost ratios
Non-life insurers

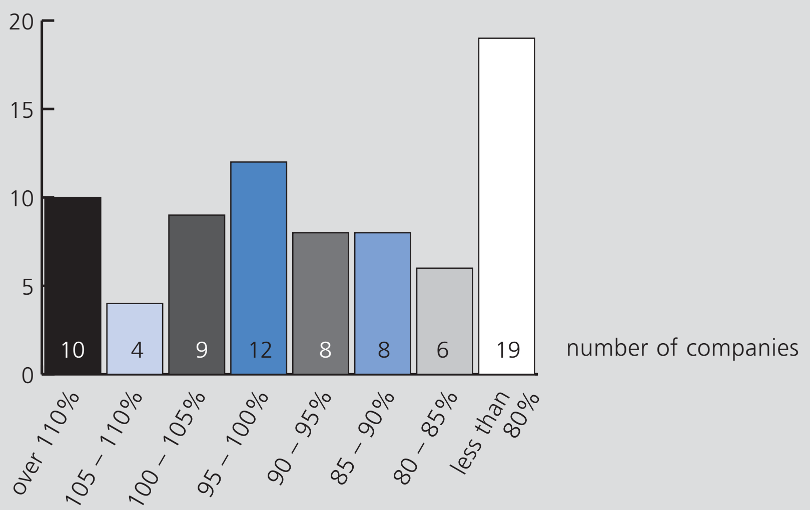
	2005	2004	+/-%
„Claims Ratio“	**74.51%**	69.26%	+5.25
„Cost Ratio“	**23.13%**	26.76%	-3.63
„Combined Ratio“	**97.64%**	96.02%	+1.62

Despite a slight deterioration, the „Combined Ratio“ – the most important indicator for non-life insurers – still remains significantly below 100%.

5.5 „Combined Ratio“

The following figure shows the breakdown of the „Combined Ratio“ by number of non-life insurers:

„Combined Ratio“
Non-life insurers



5.6 Capital investments

„Asset Allocation“ (on the basis of the market-oriented values) presents itself as follows as of 31 December 2005 and 31 December 2004, divided by life and non-life insurers:

Capital investments

	Life insurers		Non-life insurers	
(figures in billions of CHF)	**31.12.05**	**31.12.04**	**31.12.05**	**31.12.04**
Real property and buildings (incl. real estate used by the company itself)	33.0	32.9	7.9	7.7
Shares in real estate companies	1.1	1.1	0.1	0.1
Shares in affiliated companies and permanent holdings	8.8	8.2	30.9*	29.3*
Loans to affiliated companies, permanent holdings, and shareholders	6.2	4.9	9.3	10.2
Shares and stakes in investment funds, other variable interest securities, and own shares	31.2	26.6	9.7	7.4
Fixed-interest securities	148.7	149.5	44.5	38.6
Promissory note bonds and debt register claims	19.1	19.6	6.8	2.6
Mortgage claims	23.3	23.9	3.4	3.2
Fixed deposits and similar capital investments	10.9	11.2	3.3	3.7
Hedge funds	6.0	4.5	0.5	0.4
Private equity	0.7	0.3	0.2	0.1
Liquid resources	10.6	3.6	5.3	4.2
Other capital investments	8.3	7.7	7.0	6.3
Total	**307.9**	**294.0**	**128.9**	**113.8**

Capital investments

	Life insurers		Non-life insurers	
(share in %)	**31.12.05**	**31.12.04**	**31.12.05**	**31.12.04**
Real property and buildings (incl. real estate used by the company itself)	10.72%	11.18%	6.13%	6.71%
Shares in real estate companies	0.35%	0.39%	0.09%	0.05%
Shares in affiliated companies and permanent holdings				
Loans to affiliated companies, permanent holdings,	2.87%	2.78%	23.98%*	25.60%*
and shareholders				
Shares and stakes in investment funds, other variable	2.03%	1.66%	7.19%	8.95%
interest securities, and own shares				
Fixed-interest securities	10.14%	9.03%	7.53%	6.47%
Promissory note bonds and debt register claims	48.31%	50.84%	34.50%	34.05%
Mortgage claims	6.19%	6.68%	5.28%	2.29%
Fixed deposits and similar capital investments	7.58%	8.12%	2.63%	2.81%
Hedge funds	3.54%	3.82%	2.57%	3.29%
Private equity	1.94%	1.53%	0.40%	0.32%
Liquid resources	0.21%	0.11%	0.15%	0.11%
Other capital investments	3.43%	1.24%	4.11%	3.85%
Total	2.69%	2.62%	5.44%	5.50%
	100.00%	**100.00%**	**100.00%**	**100.00%**

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

5.7 Occupational pension plans (Swiss business)

Development of occupational pension plans – life insurers

(figures in billions of CHF)	**2005**	2004	+/-%
Earned gross premiums	**19.6**	20.0	-2.02
- of which full coverage*	**17.7**	17.0	+3.57
- of which partial coverage*	**1.9**	3.0	-34.32
Expenditures for insurance cases	**21.2**	25.6	-17.30
- of which insured benefits	**6.4**	7.1	-10.12
- of which resignations	**7.6**	7.6	-0.44
- of which contract cancellations	**7.2**	10.9	-33.72
Number of insured persons as of 31 December	**2005**	2004	+/-%
Workers and retirees	**1'746'950**	1'825'869	-4.32
- of which under full coverage	**1'285'435**	1'353'359	-5.02
- of which under partial coverage or reinsurance	**461'515**	472'510	-2.33

* In the case of full coverage, the life insurer assumes both capital market risks (interest rate guarantee and pension conversion guarantee) as well as biometric risks (death, inability to work, and longevity in the case of pension pools). Partial coverage means that the insured occupational pension scheme assumes one or more of these risks on its own account. In general, this means assuming capital market risks on the scheme's own account or assigning such risks to another contracting party.

The figures were compiled from the 15 life insurers still active in this market.
In the area of full coverage, the development of the gross premiums was positive, while there were considerable losses in the area of partial coverage solutions (risk reinsurance, stop loss coverage). Contract cancellations strongly decreased relative to the previous year. That private life insurers have transitioned to a more selective and careful contract acceptance policy can be seen in the decrease of expenditures for insurance benefits and in the continuing reduction of the pool of insured persons in the field of occupational pensions.

5.8 Equity capital and solvency (Solvency I)

Development of the reported equity capital

(figures in millions of CHF)	**2005**	2004	+/-%
Life insurers			
- Equity capital before earnings	**6'444**	5'669	+13.68
- Earnings	**1'610**	1'044	+54.30
Non-life insurers			
- Equity capital before earnings	**17'971**	17'408	+3.23
- Earnings	**2'616**	1'340	+95.19
Total of equity capital for life and non-life insurers	**28'641**	**25'461**	**+12.49**

The equity capital basis of both life and non-life insurers again improved significantly in the year under review. The anticipated distribution quota (dividend) is 21.73% for life insurers (effective distribution in the previous year: 17.22%) and 27.63% for non-life insurers (effective distribution in the previous year: 40.02%).

Available solvency margin Life and non-life insurers (figures in billions of CHF)	Life insurers	Non-life insurers
Available solvency margin	**27.8**	**24.3**
Required solvency margin	**11.3**	**7.4**
Solvency ratio in the year under review	**247%**	**327%**
Solvency ratio in the previous year	**216%**	**313%**

Insurance companies must always cover the required solvency margin with allowable equity capital (available solvency margin). This primarily includes the equity capital elements reported in the statutory account statement. Also included are balance sheet reserves on the assets or liabilities side. Finally, subordinated borrowed capital may also be allowable under certain circumstances.
If the required minimum cover is reached, the rule (currently still) applies that the insurance company is free to have additional or even all possible equity capital elements taken into account.
The declared solvency ratios are again in part significantly above the values of the previous year. This confirms the trend toward an improved equity capital basis.
Some non-life insurers with very high solvency ratios are insurance companies that are still building up their business or that self-insure certain group risks as part of a group.

5.9 Safety fund and fixed reserves

Safety fund and fixed reserves (figures in billions of CHF)	Life insurers	Non-life insurers
Cover values of the safety fund / cover values of the fixed reserves on 31 Dec 2005	223.1	42.0
Target amount of the safety fund / of the fixed reserves on 31 Dec 2005	212.0	32.7
Cover margin in the year under review	**11.1**	**9.3**
Cover margin in the previous year	**6.0**	**8.3**

5.10 Stress test

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

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

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

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

Stress test

	Life insurers	Non-life insurers
Solvency ratio declared	247%	327%
Solvency ratio after scenario a)	207%	310%
Solvency ratio after scenario b)	172%	308%
Solvency ratio after scenario c)	133%	290%

As already mentioned elsewhere in this market report, insurance companies are not (yet) required to include all allowable balance sheet reserves in the calculation of the solvency ratio, if minimum cover is available. In the case of non-life insurers, the allowable hidden reserves that are not taken into account in calculating the available solvency margin (before the scenarios) entail that the effects of the scenarios do not fully impact the solvency ratio, but are rather partially buffered. Life insurers, which have a relatively high amount of affected assets in comparison with non-life insurers and which generally maintain a relatively smaller equity capital basis, are affected comparatively more strongly by the scenarios.
Scenarios b) and c) must be qualified to the extent that the stress test is based on the reporting date, and any compensating effects on the liabilities side of the account statement are not taken into account.
In the framework of the SST, scenarios are considered instead of stress tests. These scenarios differ from stress tests in that they attempt to determine the economic situation in light of rare adverse events.

6. Supervised enterprises insurers

Typ of insurer	No. of insurers on 01.01.2005	Δ	New licences	Withdrawals	No. of insurers on 31.12.2005
Swiss:					
Life	24	-1		La Suisse Vie [b]	23
Non-life	77	-2	Stena 15.4.2005 Sten Met 15.4.2005	Sankt Christophorus 30.3.2004 [a] La Suisse Accidents [b]	77
Re	22	+1	Euler Hermes Re 21.12.2005		23
Captives	42	+7	REC Re 25.5.2004 [a] UF Re 24.12.2004 [a] Club Tourism 20.1.2005 Volcap Re 1.2.2005 Sovion Re 7.3.2005 UHP Re 1.4.2005 Vebego Re 1.5.2005 Intracap Re 1./30.6.2005 Wolter Kluwers Re 21.12.2005	Mühl Rück 16.9.2005 Karlshamns Re 16.9.2005	49
Life branches:					
British	1				1
French	2				2
Non-life branches:					
Belgian	4				4
British	9	+1	CNA 1.7.2005		9
Danish	1				1
German	8				8
French	4				4
Irish	2				2
Luxembourgian	1				1
Dutch	1				1
Swedish	2				2
Spanish	2				2
Norwegian	1				1
Guernsey	2				2
Bermuda	1				1
Subtotal of insurers	206	8			214
Health insurance schemes	57	-8	Sana24 16.12.2004 [a] Elm KK [c]	Zurzach [d] Mutualité Assurances [e] Natura Santé [e] Futura [e] Isérables [f] ÖKK Celerina [g] Provita 7.3.2005 KBV [h] Sanitas 15.12.2005 Wincare 15.12.2005	49
Total	**263**	**0**			**263**

[a] Retroactive filings for 2004 business year
[b] Merger with Rentenanstalt as of 1.7.2005
[c] Resumption of supplementary health insurance as of 2005
[d] Retroactive filing for 2003 business year: opening of bankruptcy as of 13.10.2003
[e] Merger with Mutuelle Assurances health insurance scheme as of 1.1.2005
[f] Merger with Easy Sana health insurance scheme as of 1.1.2005
[g] Merger with St. Moritz health insurance scheme as of 1.1.2005
[h] Opening of bankruptcy proceedings as of 28.4.2005

The worldwide business of the five largest insurance-based groups – an overview

1. Introduction
In accordance with several decrees concerning consolidated supervision, five groups are currently required to provide data to the supervisory authority on their course of business and capital resources. The goal of consolidated supervision is to monitor all business areas, taking into account all business units of a group. The point of departure for worldwide consideration of the group is the extent of consolidation according to recognized accounting standards. The following groups and conglomerates are subject to our supervision:

- Bâloise-Holding (Bâloise)
- Swiss Life
- Swiss Re
- Winterthur Group (WGR)
- Zurich Financial Services Group (ZFSG)

The figures and statistical data below are based on the information that the groups and conglomerates publish in their consolidated annual reports. A direct comparison of the data between the various groups and conglomerates is very difficult, however, given the different accounting standards, core activities, and regional focuses.

2. Overview
An essential element of consolidated supervision is the review of sufficient equity capital resources and the solvency at the level of the group. The calculation of the Solvency I requirements in the insurance sector (solvency according to course of business) is closely based on the requirements of Swiss individual supervision and the related EU directives. In the banking sector, the rules of bank supervision law apply. The sum of the requirements in the insurance and banking sectors is compared with the existing or allowable equity capital of the entire enterprise. The allowable parts are specified in the individual decrees, and the group must always demonstrate its equity capital strength. All five of the enterprises subject to supervision fulfil the specified minimal requirements for Solvency I. The solvency ratio in % (quotient of the solvency requirements to the allowable equity capital) was between 190% and 300% for the five groups at the end of 2005. As in 2004, this represents an improvement for all groups in comparison with the preceding year. Using this solvency ratio, which is currently also used throughout the EU, the risk profile of the individual enterprises and groups is not yet sufficiently taken into account, however. In close cooperation with FOPI, the insurance-based groups supervised in Switzerland are now undertaking to adapt their internal models used throughout the group to the requirements of the Swiss Solvency Test SST (Solvency II) – in analogy to the already advanced SST efforts within individual Swiss companies – and to further develop them in a useful and appropriate manner. As part of these efforts, the risk-based perspective of conglomerates should, in addition to the risks of the insurance sector, also aggregate the risks of the banking sector, consistently taking into account the risk-assessment methods applicable to that sector (Basel II), and juxtapose them with the risk-bearing capital available within the entire group.

3. Natural disasters
2005 was marked by a large number of severe natural disasters all over the world. The insurance industry estimates that the total of insured losses resulting from damage to property and interruption of business amounts to approximately USD 78 billion, which has had an impact on several Swiss groups: While one group was not affected at all, the „Combined Ratio" of the other groups rose by up to 8 percentage points due to the natural disasters. Reinsurers are affected the most, of course, since their exposure to disaster risks is relatively high. Despite these losses, all groups achieved operating profits in 2005.

4. Important statistical data

The most important statistical data of the groups subject to supervision:

Statistical data

(figures in millions of CHF)	Bâloise 2005	Bâloise 2004	Swiss Life 2005	Swiss Life 2004	Swiss Re 2005	Swiss Re 2004	Winterthur 2005	Winterthur 2004	ZFSG 2005	ZFSG 2004
Gross premiums*										
• Non-life insurance	**3'055**	3'065	**909**	1'033	**18'336**	20'011	**10'651**	10'768	**41'549**	41'990
• Life insurance	**3'784**	3'876	**19'302**	19'147	**12'119**	11'721	**10'618**	10'298	**13'105**	13'579
Balance sheet total	**62'108**	59'084	**177'597**	164'736	**219'147**	184'440	**178'728**	165'275	**446'046**	400'134
Equity capital	**4'391**	3'498	**7'953**	6'490	**22'929**	19'177	**9'702**	8'243	**30'523**	24'352
Return on equity capital	**10.3%**	6.5%	**12.3%**	10.7%	**6.7%**	13.6%	**11.6%**	8.8%	**15.5%**	13.6%
Profit **after** tax	**404**	223	**874**	606	**1'451**	2'475	**1'061**	699	**3'998**	3'059

* incl. reinsurance

5. Balance sheet total by region

The balance sheet total by region provides an overview of the regional focuses.

Balance sheet total by region – worldwide

(figures in millions of CHF)	Bâloise 2005	Bâloise 2004	Swiss Life 2005	Swiss Life 2004	Swiss Re* 2005	Swiss Re* 2004	Winterthur** 2005	Winterthur** 2004	ZFSG*** 2005	ZFSG*** 2004
Europe	**62'108**	59'084	**177'597**	164'736	**n.a.**	n.a.	**178'418**	166'233	**295'744**	269'220
North America					**n.a.**	n.a.	**5'753**	4'734	**89'884**	73'173
Asia					**n.a.**	n.a.	**5'897**	4'149	**n.a.**	n.a.
Rest of the world					**n.a.**	n.a.	**-11'340**	-9'841	**60'419**	57'741
Total	**62'108**	59'084	**177'597**	164'736	**219'147**	184'440	**178'728**	165'275	**446'046**	400'134

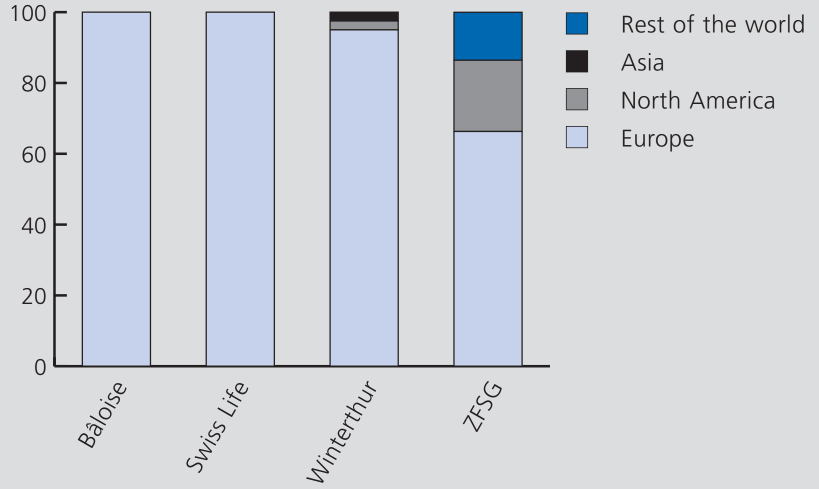
* distribution of balance sheet total by region not provided
** negative figures for „Rest of world“ due to consolidation effects
*** „Rest of world“ includes „Centrally managed business areas“

Balance sheet total by region – Europe

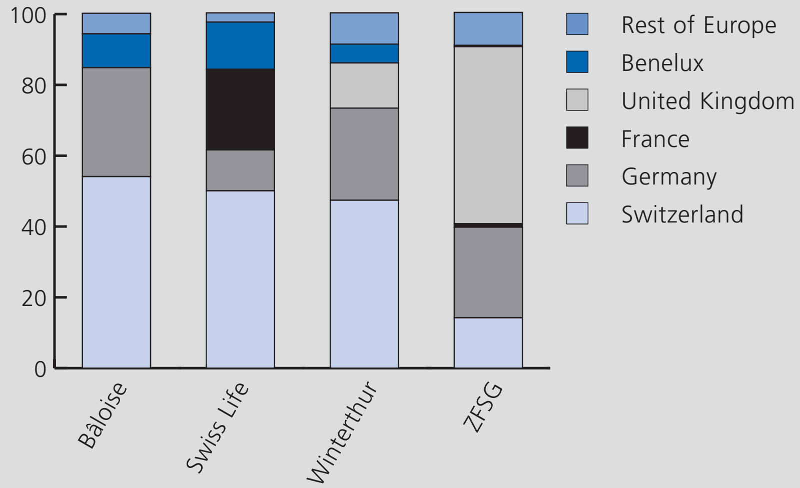
(figures in millions of CHF)	Bâloise 2005	Bâloise 2004	Swiss Life 2005	Swiss Life 2004	Swiss Re* 2005	Swiss Re* 2004	Winterthur 2005	Winterthur 2004	ZFSG 2005	ZFSG 2004
Benelux	**5'942**	5'200	**23'611**	21'524	**n.a.**	n.a.	**9'470**	8'574	**1'022**	1'271
Germany	**19'113**	17'995	**20'415**	19'172	**n.a.**	n.a.	**46'414**	43'372	**75'624**	72'227
France	**-**	-	**40'492**	34'825	**n.a.**	n.a.	**-**	-	**1'384**	1'409
Switzerland	**33'607**	34'241	**88'971**	84'589	**n.a.**	n.a.	**84'619**	83'024	**42'125**	42'274
United Kingdom	**-**	-	**-**	-	**n.a.**	n.a.	**22'794**	18'395	**146'574**	126'582
Rest of Europe	**3'446**	1'649	**4'108**	4'626	**n.a.**	n.a.	**15'121**	12'869	**29'015**	25'456
Total	**62'108**	59'084	**177'597**	164'736	**n.a.**	n.a.	**178'418**	166'233	**295'744**	269'220

* distribution of balance sheet total by region not provided

Graphs for 2005
Worldwide



Graphs for 2005
Europe



6. Capital investment items

The following table shows the distribution of overall capital investments at the groups' own risk for the most important investment categories. All enterprises increased their equity share relative to the previous year.

Capital investment items

(figures in millions of CHF)	Bâloise 2005	Bâloise 2004	Swiss Life 2005	Swiss Life 2004	Swiss Re* 2005	Swiss Re* 2004	Winterthur 2005	Winterthur 2004	ZFSG 2005	ZFSG 2004
Equities	**5'716**	4'164	**11'579**	10'135	**8'444**	5'261	**11'414**	7'898	**20'423**	19'444
Participations	**175**	153	**76**	58	**n.a.**	n.a.	**731**	416	**762**	736
Bonds	**21'220**	21'024	**81'360**	79'092	**94'798**	79'876	**88'502**	81'222	**154'996**	141'728
Real estate	**5'582**	5'619	**11'435**	11'515	**1'557**	1'699	**8'834**	8'580	**8'293**	8'203
Mortgages	**9'833**	9'798	**8'611**	8'645	**7'305**	6'361	**10'027**	10'028	**12'224**	11'690
Loans	**7'802**	7'197	**21'669**	21'010	**n.a.**	n.a.	**5'304**	5'063	**15'740**	16'992
Other	**4'071**	4'598	**24'452**	18'033	**2'811**	2'207	**1'257**	2'207	**28'513**	25'237
Total	**54'399**	52'553	**159'182**	148'488	**114'915**	95'404	**126'069**	115'413	**240'950**	224'030

* Participations are included under Other and Loans under Mortgages

Capital investment items as of 31 December 2005