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# **Insurance market in 2007: Decline in solvency I, increase in premium income**

## Statistics for the insurance market in 2007

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## 1. Introduction

After an improvement of capital adequacy of the Swiss insurance industry under Solvency I for four years in a row, a slight decline was recorded in the 2007 reporting year. In the 2007 reporting year, premium income in direct Swiss business grew for the first time since 2002: in total, premium income was CHF 50.1 billion (CHF 49.3 billion in the previous year).

## 2. Development of own funds (Solvency I)

After a significant improvement of capital adequacy measured against business volume among all insurance undertakings for four years in a row, the development in the 2007 reporting year was not uniform (life insurers -1.5%, non-life insurers -9.6%, reinsurers +4.2%). Overall, insurance undertakings reported equity capital in the amount of CHF 53.0 billion at the end of 2007, CHF 1.2 billion less than at the end of 2006. The solvency ratio (the available solvency margin as a percentage of the required solvency margin) at the end of 2007 was 255% for all direct insurers (previous year: 283%), 240% for life insurers alone (previous year: 251%), and for non-life insurers alone 276% (previous year: 331%).

## 3. Development in the different lines of business

The decrease in premium income observed since 2003 (gross premiums written in all of direct Swiss business) stabilized at a lower level in the reporting year: The total premium volume rose slightly from CHF 49.3 billion in 2006 by 1.6% to CHF 50.1 billion in 2007. In life insurance, premium income rose by 2.1% to CHF 28.7 billion; in non-life insurance, a slight increase by 0.5% to CHF 21.3 billion was recorded.

### 3.1 Non-life insurance

In non-life insurance, the pressure exerted on rates in an economic environment marked by uncertainty due to the American mortgage crisis resulted in a very low increase in premium income.

Non-life insurers (direct Swiss business) paid a total of CHF 12.4 billion for claims in 2007, only insignificantly less than in the previous year. After an increase of 18% in the previous year, claims payments in general liability insurance decreased again by 15%. Health insurance reported the highest loss ratio, namely 70%, followed by motor vehicle insurance and fire and natural hazards insurance with 58%, financial loss insurance and roadside assistance with 57%, accident insurance with 55%, and legal expenses insurance with 54%. Overall, the loss ratio in non-life insurance increased slightly, from 59.6% in the previous year to 60.6% in the reporting year.

In health insurance, the largest line of non-life insurance, premium income stabilized at CHF 6.3 billion in 2007. The decrease in premium income by about 2.0% in supplementary hospital insurance was compensated by increases of 1.8% in outpatient insurance and 1.1% in other products. The inflation accumulated in previous years was only partially compensated in 2007.

### 3.2 Life insurance

In classic individual life insurance, the decrease of 2.1% was lower than in the previous year (6.3% in 2006). Thanks to the increase in the interest rate level, one-time deposits rose somewhat relative to the record low in the previous year. The share of 81% in classic individual capital insurance and 19% in classic annuity insurance has been stable for many years. Unit-linked life insurance rose by 12%, and one-time deposits in this segment even increased by 17%. The share of unit-linked life insurances in the segment of private provision has expanded continuously since 1996 and reached 29% in 2007, compared with a share of 71% for classic life insurance. In collective life insurance for occupational retirement

provision, four years of decreases were finally followed by an increase of 2.5% (previous year: decrease of 1.2%). The share in the overall Swiss life insurance business has been relatively stable for years, currently at 69%. In 2007, life insurers reported technical provisions in the amount of CHF 283.6 billion (previous year: CHF 281.4 billion, +1%). Technical provisions correspond to the claims of insured parties. They must be covered with carefully and prudently managed capital investments, which serve as a preferential guarantee of insured party claims in the case of insolvency. The equity capital base of life insurers declined only insignificantly from CHF 8.9 billion at the end of 2006 to CHF 8.8 billion at the end of 2007.

### 3.3 Reinsurance

In 2007, reinsurers registered a strong growth in gross premiums written from CHF 31.9 billion to CHF 41.6 billion (+33.8%), 22.5% of which was in non-life reinsurance and 49.2% in life reinsurance. The increases are in part due to new companies and in part due to acquisitions. Claims payments increased significantly in the reporting year from CHF 15.5 billion to CHF 17.1 billion (+10.4%). While premium income increased by 22.5% in non-life reinsurance, claims expenditures rose by only 5.4%. The effects of disasters on reinsurers remained moderate in 2007. The substantial increase in premiums in life reinsurance also resulted in a strong recovery of claims paid. Technical provisions for own account rose especially due to higher business volume (+13%) and amounted to CHF 97 billion at the end of 2007. Actuarial reserves and provisions for outstanding claims changed by the same percentage. The capital base increased in 2007 from CHF 23.5 billion to CHF 24.5 billion. While profits dropped by 17.4%, share capital increases rose by 23%.

## 4. Capital investments

The largest investment category in the reporting year, with a slightly higher share of 41.5%, was the segment of fixed-interest investments, followed by receivables and other capital investments (share of 25.0%), investments in affiliated undertakings and holdings (share of 14.0%), stocks and investment funds, including capital investments in unit-linked life insurances (share of 12.8%), and real estate (share of 6.7%). The composition of capital investments shifted only slightly since 2006 toward fixed-interest investments and real estate.

A trend toward greater diversification has been observed, however. Holdings in alternative investments increased steadily. While the proportion of stocks is low overall, some companies have holdings far greater than the average. Real estate and mortgages are of great importance both to non-life and life insurers. By far the strongest asset class is the category of bonds, where a very high diversification of debtors is sought, however.

The gross performance of the capital investments improved for the second year in a row, to 4.35% compared with 3.98% in the previous year. This improvement is mainly due to the increased interest rate level.

## 5. Private insurance providers on the market

On 31 December 2007, 214 private insurance and reinsurance undertakings were subject to federal supervision, namely 100 Swiss and 43 foreign direct insurers and 71 Swiss reinsurers. Among the direct insurers, 26 were life insurers (4 of which foreign) and 117 non-life insurers (39 of which foreign).

## **6. Complete 2007 statistics on the Internet**

As in the previous year, FOPI will not publish its official report in printed form or as a CD-ROM. Instead, all figures, data, and facts are made available to everyone free of charge on the FOPI website.

**([www.bpv.admin.ch](http://www.bpv.admin.ch) > Documentation > Facts and figures > Statistics 2007)**

<sup>1</sup> The loss ratio is the sum of the claims settled and the change (increase +/-decrease -) in the provisions for claims occurred but not yet settled, as a percentage of premium income (not taking account of administrative costs).