Swiss Insurance Association

Annual Report

2004/2005

Contents:

The Chairman's eye view

The first federal insurance oversight law was enacted almost 120 years ago to the day before the publication of this annual report. The Federal Law Pertaining to the Supervision of Private Enterprises in Insurance bears the date 25 June 1885. It is based on the competence article incorporated in the Swiss constitution in 1874. This article stipulated that oversight of the private insurance industry be conferred upon the federal government. Supervisory requirements had differed by canton, increasingly posing a heavy burden to the successful development of the Swiss insurance industry.

The first Swiss Insurance Supervisory Act was comprised of 17 articles. It was a skeleton law that had to be supplemented and extended in the course of the growth of the insurance industry. It was accordingly followed by the Guarantee Deposits Act in 1919 and the Provision of Security Act in 1930. Complete revision of the Insurance Supervisory Act followed in 1978. In the wake of the Switzerland/EEC Insurance Agreement (1989), the Loss Insurance Act was enacted in 1992, followed by the Life Insurance Act in 1993 in the context of the Swisslex package.

17 December 2004 marked the passage of a completely new Insurance Supervisory Act by Parliament which replaces all of the aforementioned five laws. It is currently not clear whether the new era of Swiss insurance oversight will commence at the beginning of 2006 or later. In any event, the timetable set by the Swiss Federal Office for the Private Insurance Industry is 1 January 2006.

New era in supervisory law

Can this new beginning in oversight actually be termed epochal? I certainly think so. Our country, like other countries, has been undergoing change of a fundamental nature with regard to the oversight and auditing of the insurance sector. We are on the brink of the realization of a fundamentally new oversight philosophy.

The massive collapse of the stock market in 2001 has apparently brought about a radical shift in thinking. To be sure, the initial endeavors to reform oversight already took place at the beginning of the nineties. The massive value losses following from plunging share prices introduced a new dynamic into the equation. The "protection of insureds against the insolvency risks posed by insurance companies" — always the object of oversight law — is being forced to adapt to the increased volatility abounding nowadays. It is imperative that the supervisory authorities have an expanded arsenal at their disposal. 'Security' is the keyword associated with the new philosophy. It is the central thread which weaves its way through the Insurance Supervisory Act and Supervisory Ordinance. As can be expected, insurance companies have to possess a minimum amount of capital, sufficient free equity capital, sufficient technical reserves, and restricted assets whose "creation, location, coverage, changes to and monitoring“ are governed by detailed provisions. And not only that: the law today also requires institutionalized risk management capable of "recording, limiting and monitoring all essential risks". It stipulates that a responsible actuary be appointed who submits a detailed report to management once a year. Accounting and reporting is more precisely defined as compared to previous legislation and is designed to be more transparent. The definition of improper conduct on the part of an insurer has been expanded. And for the first time the activity of the insurance intermediary is subject to regulations for the most part. The fine-meshed net cast over the Swiss private insurance industry is complemented by the following new provisions: provisions pertaining to auditing, the consultation of external experts, reporting, disclosing information to insureds, special oversight of insurance groups and conglomerates, international exchange of information between government authorities, to name only a few.

At the heart of the new supervisory regime: the Swiss Solvency Test

All the built-in safety valves should in all probability be able to prevent the collapse of a Swiss insurance company. (Nevertheless, the new Insurance Supervisory Act also contains specific bankruptcy provisions to address this.) At the heart of the new oversight regime is the Swiss Solvency Test, or SST. It is designed to compute the target capital capable of covering the risks incurred during one year with sufficient certainty. Here, too, the main objective, naturally, is the protection of insureds, of course. The SST seeks to extend beyond this and promote an awareness of risk in companies after the fat stock exchange years exposed a number of shortcomings in this area. The SST is also intended to prevent "regulatory arbitrage", i.e. exploiting loopholes in regulations, thus rendering them useless: equal risks are to be underpinned with an equal amount of capital not only — across borders — within the insurance industry but also ideally throughout the entire financial services sector. In a nutshell, the concept of the Swiss Solvency Test is designed to answer the following central question: How much capital does an insurer need in order to remain sufficiently solvent today and in the foreseeable future and be in a position to honor the obligations it has towards its customers at any time? The target capital designed to secure the solvency of a company is determined within the framework of the SST on the basis of an analytical model in addition to a number of scenarios. In the future it will constitute a central element in Swiss oversight philosophy.

Basing the new oversight concept on the solvency test enables a modern, truly risk-based analysis of the insurance business for the first time. The multitude of uncertainties associated with insurance — on the actuarial side and, increasingly, on financial markets — should be substantially easier to monitor as compared to the static system employed to date. However, the new SST methodology first has to be subjected to in-depth verification. Among other things, due consideration has to be accorded to small companies for whom the determination of solvency requirements poses a sizable challenge.

Comprehensive delegation of powers

The new oversight law is laid down in the Insurance Supervisory Act, which features four times as many sections as the law of 1885. Nevertheless, the new law remains a skeleton law. A large number of powers are conferred upon the Federal Council or the supervisory authority in the Supervisory Ordinance. The highly demanding job of revising and reconciling the draft ordinance, which contains over 270 sections, is currently in progress. It is an extremely difficult task to find the right degree of regulation, thus guaranteeing an optimum of protection for insureds without overly impeding the innovative capability of companies and restricting their entrepreneurial leeway.

The newly conceived oversight law coincides somewhat with the project of integrated financial market oversight, single-mindedly advanced by Prof. Ulrich Zimmerli of the University of Berne. The Federal Council is expected to issue its report and positional statement before the end of the year. The Association supports a financial market oversight law providing it stipulates a clear-cut delineation of supervisory powers and preserves the wealth of insurance industry expertise within the oversight authority. Admittedly, it would seem that top priority is no longer being accorded to an integrated oversight authority in view of the failure of many bancassurance projects.

Albert Lauper, SIA Chairman

The CEO's report

Successful forward strategy of the SIA — boosting efficiency, influencing political opinion forming, focus on image building and public relations work

With the decision in 1998 to create a single unified, powerful trade organization by merging all the private insurance associations, the insurance industry took the first decisive step toward its future. Four years after consolidation Association management decided in 2002 to enhance the power of the new SIA by a number of measures. Apart from expanding the Head Office, the management fundamentals were systematized and broadened, the safeguarding and representation of industry interests strengthened, PR efforts in general, and image building in particular, accorded higher priority, and reorganization changes implemented to boost efficiency. All this was enabled despite the fact that human and financial resources were limited.

This SIA road map was continued in 2004 by way of corresponding performance goals in the action plan. The target-performance comparison of the SIA's — in part extremely ambitious — objectives shows that they have been achieved for the most part despite having to contend with a difficult environment like image issues or the highly complex problems. In a nutshell this means:

- The SIA possesses sound, finely tuned management foundations.
- The Association's organization has been adapted to changed exigencies.
- By accepting health insurers into the association the SIA is the only representative of the private insurance to truly represent the industry as a whole.
- The SIA is open, maintains an active dialogue with all stakeholder groups and dialogue partners, conducting itself in a grassroots manner.
- The SIA now possesses additional quality communications media.
- A well developed network incorporating effective communications ensures the representation of member and industry interests in an open, transparent manner.
- The Association's commitment to the tenets of a free-market economy have been underpinned by supplementary activities.
- The economic framework within which the insurance industry operates is again experiencing an improvement.
- The cornerstone for future-oriented basic and further education and training has been laid.
- The SIA, and with it the insurance industry, conducts itself in a "eurocompatible" manner and is open to developments at the international level.

Three-year strategy closes last gap in management foundations

After the Association's mission statement was revised and measurable goals achieved with the annual action plans in previous years, in 2004 the SIA passed the Association strategy for 2005–2007, the strategy fleshing out the objectives and programs laid out in the mission statement. In the "Political stance", "Building trust", "Sector-specific services" and "Training and further education" sections is detailed in a measurable manner how the SIA seeks to achieve a sustainable impact on the insurance industry. The strategy is designed as a rolling agenda, meaning it is adapted as needed every year to accommodate for changes which have taken place. This supplementary management foundation ensures that the member companies, Association bodies and the Head Office are in sync, setting the same priorities and proceeding in a uniform manner.

Performance review as a means to boost efficiency and fine-tune the services rendered by the Association

Structures are never an end unto themselves but rather a means to an end and therefore require adapting from time to time. That is why the SIA's entire "double-duty volunteer" organization — including the Head Office's full-time team — was subjected to a comprehensive, critical review. The tasks and significance of the ca. 40 committees and other bodies were critically examined. Yet the object was not to make changes just for the sake of making changes but rather to adapt the Association's organization to changed exigencies and circumstances.

Findings of the review: the organization of the four committees and their commissions were left as-is for the most part. It was shown that considerable importance continued to be attached to actuarial concerns. New paths were taken in the Association's central bodies. Clear-cut objectives and a comprehensive controlling and reporting system ensure that these bodies operate in an efficient manner. The following reorganization measures show in a clear-cut manner where additional needs have been addressed:

- merging of lobbying, communications and prevention into a single commission (now: Public Affairs, Public Relations (incl. Prevention))
- consolidation of the former Human Resources and Training Commission with the Field Service and Marketing Commission (now: Employment Issues (incl. Sales and Marketing))
- expansion of the former Law Commission to cover compliance and competition issues (now: Law & Compliance (incl. Competition))
- creation of a Consumer Issues Project Group

This also includes establishing a new department for solvency, accounting and reporting issues at the Head Office and merging the Law and Economy & Financial Affairs Units into a single unit.

SIA's significance enhanced by admitting health insurers as a new key member group

The SIA possesses core competencies in the following areas among others: Insurance Contract Act, Insurance Supervisory Act, compulsory accident insurance and daily benefits insurance. This prompted the four largest health insurers to seek membership in the SIA. Being subject to oversight by the Federal Office for Private Insurance (FOPI), they are in need of the services provided by the SIA. Other health insurers will follow. This means that the SIA can unequivocally state that it is the voice representing the private insurance industry, thus enabling it to more forcefully represent its interests. This does not impede cooperation with santésuisse in any way as the latter perceives itself to primarily be the sectoral organization representing health insurance funds. The collaboration of the SIA with santésuisse was strengthened in the following areas: prevention, health policy and political issues.

Dialogue with trade unions and consumer protection organizations

Political success cannot be achieved in a federalist country like Switzerland with its wide array of heterogeneous interest groups unless all stakeholder groups are included in consensus building. Consequently it was a logical choice for the SIA to open up even more to all stakeholder groups and dialogue partners. This extended in particular to dialoguing with trade unions and consumer protection organizations, thus making for a substantial improvement in mutually understanding the position of the other side. Continued reconciliation in individual issues is quite possible, as demonstrated by current projects.

Enhancing the quality and quantity of PR efforts

The SIA's public relations work underwent improvement with regard to quality *and* quantity as demonstrated by the following: publication of the new periodical *Positions of the Swiss Insurance Industry*, achievement of higher visibility in the print and broadcast media, hosting of press breakfasts with Federal Assembly house journalists, stepping up contacts with the media, expanding issue management, and augmenting the SIA's series of publications. Bottom line: Appreciation for understanding of the concerns of private insurers has grown considerably, criticism has abated. The image of the insurance industry is still by no means glowing, however positive tendencies towards a reversal of this situation are noticeable. This positive development has been prompted not least by the Association's prevention projects like "Now you see me" which demonstrate that the insurance industry has adopted a holistic approach by sponsoring activities to prevent loss.

Fostering customer focus by way of successful seminars on the 2nd pillar

Image polishing also includes contact with customers, the policyholders, for the insurance industry demonstrates dedicated customer service each and every day with its thousands of field representatives. This customer service approach has been underscored by several seminars on occupational pension plans conducted by the SIA throughout Switzerland. In Geneva and Lausanne, for example, more than 500 SME representatives attended information events hosted by the SIA. Unfortunately not only praise was to be heard at these events but criticism as well. Yet we are convinced that in the last analysis jointly discussing issues promotes communication and improves mutual understanding.

Transparent lobbying by way of modern campaigning methods

Representing the interests of the private insurance industry is one of the SIA's main tasks. For a modern organization like the SIA, lobbying "in full view of the public" and thus in a transparent manner is a logical given. Gone are the times when the representation of industry interests took place behind closed doors, gone are the days when lobbying exuded distrust and suspicion. Today it is no secret that the SIA conducted talks with five Federal Councilors and the Federal Chancellor in 2005, that several PM meetings took place, that numerous one-on-one talks were conducted with members of parliament, and that talks were conducted with all federal agencies of relevance to the insurance industry. The insurance industry doesn't have anything to hide, its stances are well-known. Lobbying has been transformed into campaigning. Together with the SIA communications team a legislation project is followed right from the beginning through all phases, with influence being brought to bear by utilizing the entire network of contacts and resources available and including the general public.

Unequivocal commitment to the principle of competition

The tightening of antitrust law starting on 1 January 2004 also left its mark on the SIA. To be sure, competition between member companies was stiff already before then. However, the task last year was to examine the resolutions of the SIA pertaining types of collaboration and the services rendered by the Association with regard to their compliance with antitrust law in view of the new statutory requirements. The SIA did this in an extremely resolute manner: even the slightest doubt prompted the Association to do away with old, time-honored practices. One example of this was the Association's decision to dispense with its demand for uniform rates in compulsory accident insurance after reservations were voiced by the Competition Commission although the Swiss Federal Office for Public Health had come out strongly in favor of retaining them.

Resolute safeguarding of interests in all areas of relevance to the insurance industry

Even though not all representation objectives could be achieved — which is par for the course in a democracy — the SIA's successes are nonetheless respectable:

- The minimum interest rate applicable to **occupational pension plans** was raised slightly, however the SIA was able to fend off demands going beyond this. A petition for establishing a minimum interest rate formula was submitted in Parliament at the same time. The SIA's efforts to have the conversion rate quickly lowered further proved successful. Parliament unanimously supported the SIA's petition. Expert proposals were accordingly drafted. As to the parity administration of a company's own pension plan pools, the SIA has been successful in pushing the participation of insurance companies.

The prohibition pertaining to the interest rate risk deduction was transformed into a topical issue.

- The **partial revision of the Insurance Contract Act** enacted was in agreement for the most part with the objectives of the insurance industry.
- The **revision of the Insurance Supervisory Act** also turned out positive for the private insurance industry. The legal quota contained in it applicable to occupational pension plans corresponds more or less to the expectations of the insurance industry. The **Supervisory Ordinance** accompanying the Insurance Supervisory Act was drafted with the intensive participation of the SIA with a focus on practical relevance; it will be enacted into law in 2005.
- As to the Supervisory Ordinance, we would like to draw your attention to the development of the **Swiss Solvency Test** as the Swiss solution to the EU Solvency II directive, the SST bearing the distinctive mark of the SIA.
- The proposals submitted by the SIA in the drafting of the legislation for a **Swiss export risk insurance** can be viewed as highly constructive. The compromise proposals offered by it have been adopted in Parliament.
- The discussion surrounding **risk-appropriate premiums** proved to be an on-going political issue. The introduction of a unisex premium solution in Parliament was successfully prevented. The communications offensive pertaining to the nationality factor in rate-setting in motor liability insurance resulted in more objective dialogue concerning this topic, in so doing heightening the understanding for the situation of insurers.
- A new **data protection bill** running counter to the interests of the insurance industry was rejected in Parliament and sent back to undergo revision.
- The SIA's model pertaining to **Swiss-wide earthquake insurance** was submitted to the FOPI for approval.
- The statutory regulation of **genetic testing** was resolved in a manner amenable to insurers for the most part.

Securing the future of the insurance industry by embarking on new training and education paths

The insurance industry environment is not the only place where changes have been taking place, as new requirements and insights have also come to the fore in education and training. Two areas in particular underwent restructuring in 2004. A diploma management training program at the University of St. Gallen comprised of six modules closes the previous gap at the executive management level. At the insurance diploma level, the system in place to date is to be replaced with an education program at the technical college level providing for two levels, in so doing enabling maximum openness and flexibility.

Active participation in European affairs

Swiss legislation is increasingly being subject to international influences and demands, especially those of the EU. This is reflected by accounting, reporting and solvency issues as well as by the design of risk-appropriate premiums or the regulation of intermediaries and brokers. This is why it was important for the SIA to continue bringing its influence to bear on the development of EU legislation in 2004. Exerting a direct influence is not possible seeing as Switzerland is not a EU member, consequently influence was of an indirect nature. For one, by way of active participation in the *Comité Européen des Assurances* (CEA), in which the SIA is a member of the General Director Conference and its task force, but also in numerous other committees and commissions. Good contacts were also maintained with the European Parliament and the EU administration so as to detect new developments early on, one example of this being the postulated right to insurance coverage.

Additional challenges in 2005

The SIA's remarkable achievements in 2004 are already juxtaposed by new challenges in 2005. The Federal Council is due to issue its report and positional paper on financial market oversight, and bills for revised versions of the Insurance Contract Act and Accident Insurance Act are already on the horizon. Key courses are to again be set in the 2nd pillar. By admitting health insurers into the SIA healthcare has achieved higher significance in the Association. The Swiss Solvency Test will be nearing its completion. The SIA intends to actively assist in bringing about a breakthrough with regard to the Bilateral II agreements, the Schengen Implementation Agreement/Dublin Convention, and the free movement of persons. The trainee issue is to be accorded special consideration and the education and training reforms propelled forward. With its revamped structures, its unique volunteer system, its full-time Head Office and its clear-cut objectives, the SIA is in the pole position to meet these high expectations.

Lucius Dürr, SIA CEO

Switzerland

1. Insurance law

1.1 Supervisory and contract law

1.1.1 Insurance Supervisory Act / Supervisory Ordinance

The year under review made for considerable excitement in view of the new Insurance Supervisory Act. Although the parliamentary deliberations had already started as of the writing of the last annual report, the ambitious objective of the Swiss Federal Office for the Private Insurance Industry (FOPI) that the law be enacted in January 2005 could not be achieved. For one thing, numerous differences between the National Council and Council of States had to be reconciled, the result being that the law wasn't passed until the autumn session of 2004. For another, the new law is a skeleton law. The fleshing out of the fundamental changes detailed in the 2003/04 annual report will take place via the Ordinance Pertaining to the Oversight of Private Insurance Carriers (Supervisory Ordinance). To be sure, the consultation procedure on the 270-article-strong ordinance was not initiated until mid August 2004. The new Supervisory Ordinance supercedes nine Federal Council ordinances, two Federal Council decrees, four unpublished and a number of published FOPI directives. Among other things, the ordinance contains detailed provisions pertaining to the calculation of solvency; the responsible actuary; accounting, auditing and reporting; the insurance intermediary; in addition to provisions on the oversight of groups and financial conglomerates. In a major project launched by the SIA, in which the SIA's volunteer bodies were involved, the SIA seized the opportunity to draft a response to the consultation procedure. The resulting comprehensive position paper issued by the SIA is available at http://www.svv.ch/Current issues/Dossiers/Ordinance Pertaining to the Oversight of Private Insurance Carriers (Supervisory Ordinance).

What happens now can be described as follows: After the various responses to the consultation procedure are examined the preliminary draft bill will be subjected to an internal revision and formal reconciliation in April 2005, with FOPI hearings taking place with the SIA in parallel. An internal consultation among various departments and agencies will be followed by a final adaptation of the Supervisory Ordinance bill before the dossier of the Federal Council is drafted. A public announcement is expected at the end of 2005. The new Insurance Supervisory Act and the Supervisory Ordinance are scheduled to be enacted into law on 1 January 2006.

A key change being brought about by the Supervisory Ordinance is the introduction of new solvency regulations. In the wake of various events and developments (e.g. terrorist attacks, tight situation on stock markets, natural disasters, demographics), the magnitude of insured losses has repeatedly impressed itself on the minds of the public at large. Following from the knowledge that these risks have a direct impact on the soundness of companies, the need arose to modify existing solvency regulations and develop a model providing a picture of the current risk situation and a company's risk capability. The result was the Swiss Solvency Test (SST), which is designed to determine the target capital required to contend with risks incurred.

A fair market valuation is the basis for determining the target capital. Determining values on the assets side is generally easy as there is a market value for them. The values on the liabilities side can only be estimated at best, and thus a capital surcharge is applied to them for the purposes of the SST. This surcharge is designed to ensure that in the event of a portfolio transfer or a runoff sufficient funds are available to cover incurred liabilities.

With the SST, insurance oversight is now focussed more strongly on risk management in insurance companies. This is designed to ensure that actuarial valuations and risk management provide information to management in a timely manner as needed.

With the SST the supervisory authority is anticipating a development trending away from statistically determined values toward risk-based ones. In the EU this process has been in effect for some time with Solvency II.

1.1.2 Financial market oversight

As already indicated in last year's annual report, two reports were still pending after the Zimmerli Expert Commission published the first part of its report on the financial market oversight law (FINMA Act). This body was able to conclude its work during this fiscal year.

First, part II of the expert report relating to "FINMA Sanctions" was completed and submitted to the Swiss Federal Department of Finance in August of 2004. The object of this was, based on the existing system of sanctions, to create a new, streamlined and harmonized system of sanctions applicable to financial intermediaries. Generally speaking, the SIA supports the new system of sanctions, in particular the departure from the proposal previously expressed by a third party of creating the possibility in the FINMA Act of imposing astronomically high fines (up to CHF 50 million) by way of an administrative ruling. The insurance industry stated that imposing such excessively stiff fines was akin to a punitive measure and, consequently, the administrative penal proceeding was better suited for this purpose. The Expert Commission dealt with this problem in depth and decided in favor of the administrative penal procedure. The report of the Expert Commission reads as follows: "Following from the legal practice of the European Court of Justice pertaining to article 6 of the Convention for the Protection of Human Rights and Fundamental Freedoms, it appears problematic to impose fines in certain amounts within the framework of an administrative proceeding. Such incisive financial sanctions possess a punitive character."

The new developments in the insurance industry also necessitated making various adaptations to the catalogue of sanctions of the new Insurance Supervisory Act. The essential changes in the catalogue of sanctions of the FINMA Act are as follows:

- Criminal offenses which can be formulated uniformly for all special regulations pertaining to financial market law are regulated in the FINMA Act. This includes sanctions pertaining to breaches of duty by auditing companies, criminal offenses committed in connection with the management of accounts and receipts, reviewing annual financial statements, and failure to observe the provisions of the supervisory authority.
- Specific criminal offenses are to remain in the special regulations, however they are to be standardized, reduced in scope or eliminated.
- Offenses committed as the result of gross negligence shall be punishable by a fine of up to CHF 250,000. Premeditated offenses shall be uniformly punishable by a prison sentence of up to three years or a fine equal to a maximum of 360 day-sentences and, thus, CHF 1,080,000.
- The Federal Department of Finance (FDF) is designated as the criminal authority, the FDF already being mainly responsible by law for criminal offenses in the supervisory area of the SFBC.
- In order to shorten the lengthy process of appeal against the provisional penal orders of the FDF, the Federal Criminal Court is appointed the sole court of first instance for all regulations pertaining to financial market law.
- Declaratory rulings are to attain central importance in the system of administrative sanctions of the FINMA Act: If a supervised institute is accused of a serious violation of supervisory provisions, the Federal Financial Market Supervisory Authority (or FINMA) has to issue an official statement in the form of a contestable ruling. An injunction can be issued against responsible individuals in a management position, prohibiting them from exercising their profession for a specified period of time.
- Legally binding rulings on the violation of a supervisory provision can be published. In so doing, a legal basis is created for the practice of "naming and shaming" as a means of imposing sanctions against the culpable institute or individual. This practice has become prevalent at the international level and has now been adopted in Swiss financial market law.
- FINMA will be able to collect profits deriving from serious violations of supervisory provisions, the same applying also to avoided losses.

The Swiss insurance industry is cognizant of the stiff sanctions, however it supports the direction that has been taken. This thrust is sure to promote the positive reputation of the Swiss financial center at the international level. In addition, the practice of "naming and shaming" provides preventive protection for companies as well as consumers against misconduct and strengthens trust in the insurance industry. What the SIA welcomes in particular is that names of institutes are not published until after a legally binding ruling has been handed down.

In the third and last part of the Expert Commission's report, published in spring of 2005, it dealt with the issue of extending prudential oversight to independent asset managers, introducing brokers and foreign exchange traders. Banks, securities traders, insurance companies and others are already subject to this oversight. In the course of this work the Expert Commission was forced to take note of the fact that the question of expanding prudential oversight is complex and the subject of hot debate. Consequently, the report only deals with the general issue. Before embarking on demanding preliminary legislative work, the Federal Council should make a decision of general principle as to what is to be subjected to oversight based on the Expert Commission's problem analysis. After this decision is made, as proposed by the Expert Commission a new committee of experts is to be commissioned with this work. All the market players concerned are to be represented on this committee of experts. After the third part of the report is reviewed by the FDF, it is to be submitted to the Federal Council for a decision on how to proceed further.

1.1.3 Insurance Contract Act

The partial revision of the Insurance Contract Act was completed in the winter session of 2004. The key feature of the revision is the new provisions governing the consequences of misrepresentation or non-compliance with the disclosure obligation on the part of insurance customers. One new development concerns the requirement of a causal relationship, i.e. in the future an insurer is not compelled to honor a claim only in the event that the information not disclosed or misrepresented upon the conclusion of the contract impacted the occurrence or extent of the loss. The partial revision also introduces a disclosure duty on the part of the insurer. In the future, prior to the contract being concluded the insurer has to inform potential customers about its identity, the product and data protection issues. Other key new provisions extend to the divisibility of premiums in the event that the insurance contract is prematurely terminated and the fate of the contract in the event that ownership of the insured item changes hands.

Parallel to the partial revision, a Swiss government commission of experts headed by Prof. Dr. Anton Schnyder has been charged with the task of preparing the first draft for a fully revised insurance contract law since February of 2003. The draft bill was originally due to be submitted by the end of 2004. Pursuant to an announcement issued by the Swiss Federal Department of Finance in December 2004, the expert commission needs more time for the revision draft than planned. Consequently, the first version of the new bill won't be available until the end of 2005.

1.2 Social security

1.2.1 Federal Old-Age and Surviving Dependants' Insurance Scheme

The efforts concerning the reform of Federal Old-Age and Surviving Dependants' Pension Scheme (AHV/AVS) suffered a setback in 2004 when the Swiss people rejected the 11th revision of this law on 16 May 2004 with a two-thirds majority. Although the proposed bill was conceived as a compromise composed of a mixture of increased revenues and reduced benefits, the Swiss people still weren't accepting.

The proposed revision provided for a common retirement age of 65 for men and women, a new provision pertaining to the widow's pension, and a flexible retirement age. Not only was the 11th AHV/AVS revision rejected but also the VAT increase of 1.8% in favor of the AHV/AVS and Disability Insurance Scheme (IV/AI) proposed by the Federal Council.

This unequivocal rejection left the Federal Council and Parliament somewhat perplexed. Pure tax increases or reductions in benefits and services are taboo for the Federal Council for the time being. Consequently, it decided to submit to Parliament a "11th AHV/AVS revision light" version by the autumn of 2005, the central issues of the one bill being the increase in the retirement age of women to 65 and dispensing with the widow's pension only in cases in which widows do not have any dependent children, with the other bill being one of an administrative nature.

1.2.2 Disability Insurance Scheme

In 2004 the Disability Insurance Scheme offices were still engaged in implementing the 4th revision of the Disability Insurance Scheme (IV/AI), which entered into force on 1 January 2004. However, in view of the pronounced increase in IV/AI cases it was clear that the 4th revision would not suffice to get the situation under control. Consequently, the Federal Council subjected an entire package of measures to a consultation procedure already in September of 2004. Their central focus were proposals for a 5th revision and streamlining measures as well as a bill for supplemental financing of the IV/AI in the amount of 0.8 percentage points of VAT.

The fact that a new 5th revision bill is being subjected to a consultation procedure before the measures of the 4th revision — which are also designed to promote reintegration — have even been implemented bears witness to a certain degree of hectic fervor. This is not hard to understand in view of the CHF 1.5 billion shortfall in the 2004 IV/AI annual accounting, making for yet another negative showing, this amount now having risen to CHF 6 billion. This is all the more problematical as this negative balance translates into liabilities toward the AHV/AVS fund. In view of rising deficits, the overriding task now will be to put the IV/AI scheme on a solid financial footing. Currently, proposals are being discussed in Parliament for transferring the federal government's share in the gold reserves of the Swiss National Bank to the IV/AI scheme.

1.2.3 Federal Occupational Retirement, Survivors' and Disability Pension Plans Act

Although occupational pension plans were also the subject of somewhat emotional disputes last year, particularly in the context of the oversight of autonomous pension plan pools, a certain calming was nevertheless noted. The fact that autonomous funds and special government institutions have been increasingly suffering the consequences of an unfavorable environment during the past couple of years led to the realization that certain corrective measures were needed. However, the second pillar is said to not be jeopardized on the whole.

1st Revision of the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act

The 1st revision of the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP) passed by Parliament in the autumn session of 2003 has been entering into force in stages. Whereas the provisions pertaining to transparency became legally binding already on 1 April 2004, other entry-into-force dates apply to the other provisions (1 January 2005) and the tax provisions (1 January 2006).

Despite the fact that the 1st BVG/LPP revision has entered into force, the legislative work on the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP) continues unabated. This is explained not least by the fact that the 1st BVG/LPP revision missed its target in various respects. One example of this is that consolidation of the second pillar proved unsuccessful as the requisite measures were not initiated at all or too hesitantly. Another example is that the lowering of the conversion rate proved to be insufficient already upon entering into force. The issue of the minimum interest rate was also not solved. The provision pertaining to the interest rate risk deduction also caused problems.

Transparency

The creation of the transparency standard was a key element of the 1st BVG/LPP revision, which is why these provisions were enacted into law already on 1 April 2004 before the rest of the bill. The implementation work presented the insurance companies — who are affected most by these provisions — with major problems as the subdivision of the guaranty fund by mid year had to be approved by FOPI. This subdivision into individual and group life business was particularly difficult and costly as tricky valuation issues were involved.

Conversion rate

Even before the first revision of the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP) passed it was clear that the resolution passed by Parliament for lowering the conversion rate did not sufficiently take demographic developments into account. That is why the Federal Office for Private Insurance (FOPI), in complying with a parliamentary motion, commissioned a working group to examine the amount of the conversion rate. This working group, in which the SIA was also represented, submitted a model in its final report showing how the differing fundamentals of the insurers and the autonomous funds could be made comparable. As a result of this work, the Occupational Pensions Commission came to the conclusion that lowering the conversion rate from 6.0% to 6.4% was justified. An unrealistically high conversion rate is dangerous as it results in the long term in underfunding or excess debt. The result is that shortfall contributions have to be made or benefits curtailed. The gainfully employed pick up the tab of retirees.

Minimum interest rate

Determining the minimum interest rate continues to be unclear and unsatisfactory as the Federal Council did not establish the minimum interest rate in such a manner that it can be computed in advance. After specifying a rate of 2.25% in 2004, the Federal Council specified a rate of 2.5% for 2005, although the yield of the ten-year federal bonds continued to fall during this same period.

This unsatisfactory situation not only occupies the minds of life insurers but also those of the autonomous pension funds as well. Consequently, in a joint motion both parties demanded that a formula be anchored employing a single deduction based on the rolling average of federal bonds. Among other things, this is designed to improve the possibilities for long-term investments.

Interest rate risk deduction

The interest rate risk deduction take account of the loss in value of a fixed-interest-rate investment in the face of rising interest rates. If no interest rate risk reduction is applied, the customer also has the option of canceling the policy in the event of rising interest rates (e.g. of bonds) without having to assume the loss resulting from the requisite premature withdrawal from long-term investments. The SIA is in favor of revising section 53e of the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP) so that developments negatively impacting the solvency of life insurers can be forestalled.

1.2.4 Health Insurance Act

In the wake of the failure of the 2nd revision of the Health Insurance Act in the winter session of 2003, resuming the reform of health insurance was at the center of health policy discussion during the year under review. The Federal Council subdivided reform into three legislation packages. Since this time the parliamentary commissions have been grappling with the examination and regrouping of individual revision items. No genuine reform step has yet to be implemented.

A centerpiece of the proposed reform of the Health Insurance Act is lifting the 'contractual obligation' imposed by health insurers, by which physicians can only invoice their services to those insurance companies with whom they have concluded a contract. In its report and positional paper the Federal Council intends to lift the establishment ban imposed on healthcare providers due to expire at the beginning of July 2005 and replace this practice with a system of freedom of contract, as proposed by Parliament within the framework of the 2nd revision of the Health Insurance Act. It is assumed that a referendum will be initiated against the corresponding report and positional paper issued by the Federal Council.

The new system of hospital financing is also being resumed. The Federal Council proposes that the financing of services be done via lump-sum case rates and 'dual fixed' financing by the cantons and insurers. The financing scheme in which hospitals have to deal with only one funding entity is to be introduced at a later date.

Two different financing models are being discussed in the reform of nursing financing. Both models are aimed at stabilizing the nursing care benefits of health insurance at the current cost level and equalizing the added burden to private households by expanding the entitlement to supplemental benefits.

1.2.5 Compulsory accident insurance under the Accident Insurance Act

Already in 2002 the Federal Council commissioned the Federal Department of Home Affairs (DHA) to conduct a study designed to weigh the benefits and costs of a liberalized system of accident insurance against a privatized Swiss National Accident Fund (SUVA). The cost-benefit analysis on compulsory accident insurance presented by the University of St. Gallen during the year under review came to the conclusion that from the point of view of the overall economy, no clear-cut decision could be justified in favor of or against liberalization. This prompted the Federal Council to resolve that the existing system basically be retained. By contrast, the SIA had come out in favor of privatizing the SUVA.

The Accident Insurance Act has been in effect virtually unchanged for more than 20 years now. It is no longer up to date in many respects. Consequently, the Federal Council commissioned the DHA to develop the fundamentals for a comprehensive legal reform by the end of 2005 and to draft a report detailing the key revision topics. The following items take front and center stage: improved coordination of the benefits of compulsory accident insurance with those of the 2nd pillar and the IV/AI disability insurance scheme and looking into possibly extending the activities of the SUVA to other areas. There is also a substantial need for adjustment as a result of the common SIA net premium rate. The SIA rejects the notion of SUVA's remit being extended.

Last year the Federal Council also delivered its report and positional paper on the "Federal Law on Transferring Administration of the Armed Forces Insurance Fund to the Swiss National Accident Fund (SUVA)" to the National Council and Council of States. The Armed Forces Insurance Fund is to be administered by the SUVA as an independent social insurance scheme and continue being financed by the federal government. The SIA has always been against the SUVA expanding its operations. In its response to the consultation procedure it suggested that the selection of the implementation body be done by way of a call for bids so that other organizations can apply for the job.

2. Various legal and economic issues

2.1 Tax situation

2.1.1 2001 tax package

The tax package was rejected in the referendum on 16 May 2004, the result being that the status quo ante has been retained. If the tax package had been passed, it would not have resulted in any tax advantages for the insurance industry but rather only disadvantages for the most part. The proposed paradigm shift in the taxation of owner-occupied residential property would not only have led to increased repayment of mortgages owing to the abolishment of the deductibility of mortgage interest but also to a concomitant depletion of occupational and linked pensions as well, as repayment would have been financed by funneling out retirement funds from pensions. On the other hand, the deduction for premium payments made to private insurance in income tax returns of natural persons was retained. However, rates hardly keep pace with the rate of inflation, consequently the deduction provides de facto no tax relief to taxpayers in view of the constant rise in health insurance premiums. Finally, increasing the VAT rate would have meant a further increase in this hidden tax for insurance companies — who are not genuinely exempt — and thus to an increased burden.

The — otherwise undisputed — proposed stamp duty bill, which was rejected along with the tax package, was put back on the table, having since been passed by Parliament. The transfer tax duty on the securities trading of domestic life insurance companies will definitively be retained and additionally extended to that of pension funds.

2.1.2 Corporate Tax Reform II

The consultation procedure on the second corporate tax reform was concluded during the year under review. The SIA along with the leading industry and trade associations came out for Model 3+ in no uncertain terms, i.e. for partial relief for paid-out profits from all corporate and private holdings. These earnings are to be subject to tax of only 50% instead of 100% — at least at the direct federal tax level — and be taxed together with all other income. In addition, the tax issues plaguing the courts such as transposition, partial liquidation, "quasi securities trading", and inheritance holding companies are to be eliminated, and all offsetting of reform-induced tax revenue shortfalls is to be dispensed with, especially the introduction of a capital gains tax.

In a press release issued on 27 January 2005, the Federal Council announced the macro data for the implementation of the second corporate tax reform. In its view, a comprehensive reform of Swiss corporation tax law "is no easy task". It goes on to state that in view of the diverging opinions of economists and lawmakers with regard to the proposed models it has opted for a road map targeted at reducing the economic double burden and initiating relief measures in favor of small and medium-sized enterprises.

Dividends from holdings are to benefit from direct federal tax relief, i.e. 20% reduction for private assets and 40% reduction for business assets and profits on disposals, with canton tax relief amounts being in accordance with their individual tax laws. The tax exemption of private capital gains is to remain in effect. On the other hand, the disputed relief measures for stock corporations and partnerships remaining in the consultation procedure are to also be included in the report and positional paper pertaining the corporate tax reform, scheduled to be referred to Parliament in June 2005. The federal government is reckoning with tax revenue decreases on a scale of CHF 400 million, which would be offset by the additional tax revenues generated by economic growth additionally triggered as a result of the tax relief measures.

The proposals submitted by the Federal Council on the second corporate tax reform are far below expectations in the view of industry. The SIA perceives the desire for reform on the part of the Federal Council to be half-hearted at best. In consideration of the stagnating domestic economy, the proposed reform steps are too weak to generate any sustained grown. Clear-cut corrections are a logical choice for maintaining or enhancing the competitiveness of Swiss corporations, particularly in view of ongoing efforts in the EU (e.g. in Ireland, Austria, and the new EU members in the east).

2.1.3 Tax treatment of occupational pension plans

After the revision of the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP) went into effect, the Federal Council subjected the 3rd package of ordinance amendments (Ordinance Pertaining to the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVV2/OPP2)) to the consultation procedure. The package extends to the tax-relevant provisions as follow from section 1 ("Definition of the Principles of Occupational Pension Plans") and sections 79b und c of BVG/LPP ("Contracting-in Provisions"). In it the principles pertaining to recognition as an occupational pension scheme developed for the most part in the course of tax practice are formally laid down in pension law.

The Swiss Insurance Association considers the thrust of the proposals for the tax provisions in the BVG/LPP to basically be right. As a consequence, pursuant to the implementing regulations on the concept of occupational pension schemes as stipulated in section 1 of BVG/LPP, the valid principles relating to the pension law and tax law treatment of occupational pension plans can be continued. However, improvements and clarifications pertaining to ensuring proper application in practice are overdue. For example, the politically motivated limit for the earliest age — age 60 — for drawing retirement benefits in the draft bill was too high and not in keeping with practice. In addition, it has to be ensured that the requirements of pension plans made by the supervisory authorities are not ratcheted up further, thus further restricting scope for action.

2.1.4 New payroll statement

On 30 September 2004, the Swiss Tax Conference resolved the introduction of the new payroll statement form, uniform throughout Switzerland, the form to also serve as a pension slip. Its use will be voluntary starting in 2005 and compulsory from 2006 on. Industry successfully lobbied for improvements to the originally extremely restrictive regulations pertaining to filling in this statement, and for simplification in particular. By the same token, substantial compromises were made with regard to the treatment of certain fringe benefits, a transition arrangement accommodating employers and employees, and, finally, a trial phase during which the suitability in practice of the new payroll statement is to be tested.

The certification by insurance companies of fringe benefits to their staffs, particularly premium discounts on insurance policies, which used to undergo varying treatment will be subjected to uniform handling in separate negotiations of the SIA with the tax authorities.

2.2 Money laundering / Self-Regulation Organization

The fight against money laundering and the financing of terrorism has top political priority at the *European* level, as the influx of illicit funds can harm the stability and reputation of the finance sector. The creation of the single market and elimination of barriers is not only conducive to acting in a lawful manner; it can also facilitate white-collar crime and money laundering.

EU and Liechtenstein

The European Commission is pursuing a comprehensive strategy for preventing abusive practices in the finance sector. It has submitted a proposal for the continued improvement of EU measures against money laundering and the financing of terrorism. The 2nd European Parliament and Council Directive on the Prevention of the Use of the Financial System for the Purpose of Money Laundering of 4 December 2001 is to be adapted to the revised FATF recommendations. The 3rd Money Laundering Directive will also cover the financing of terrorism and is to be applied uniformly in all EU member states. The EU finance ministers have agreed on a general approach to the draft. The Council and the European Parliament will deal with the draft of the 3rd EU Money Laundering Directive in the spring of 2005. The draft directive could be passed at the end of June 2005.

The *Liechtenstein* Law on Professional Due Diligence in Financial Transactions (Due Diligence Law (SPG)) has been revised and entered into force on 1 February 2005. Formally speaking, the Law represents a full revision, however the revision does not involve any system change.

The Due Diligence Law applies to insurance companies licensed in accordance with the Insurance Supervisory Act who offer direct life insurance. The associated Liechtenstein subsidiaries of foreign insurance companies are also subject to the Law. The full revision of the Due Diligence Law has no impact on the Agreement between Liechtenstein and Switzerland Pertaining to Direct Insurance. The oversight of measures for combating money laundering continue to fall within the remit of the supervisory authority of the country of domicile for service transactions and of the supervisory authority of the host country for business by a representative office. By contrast, the threshold value triggering identification is pursuant to Liechtenstein law.

Swiss federal government level

At the *federal government* level, Parliament passed the Federal Law on the Supervision of Insurance Companies (Insurance Supervisory Act) in the 2004 winter session. It will enter the statue book on 1 January 2006. As a result of the revision of the Insurance Supervisory Act, insurance brokers are also considered to be finance intermediaries and as such are subject to the Money Laundering Act.

The Ordinance of the Federal Office for Private Insurance (FOPI) Pertaining to the Combating of Money Laundering is also undergoing revision and is to enter into force on 1 January 2006 in parallel with the Ordinance to the Insurance Supervisory Act. The SIA's Self-Regulatory Organization (SRO-SIA) will be afforded the opportunity to actively contribute to the revision work. The SRO-SIA notified the FOPI of its concerns with regard to any revision items already in advance of the revision. In the motion entered by it, it expressly pointed out that subjecting financial intermediaries and insurance brokers to the jurisdiction of the SRO-SIA was not in compliance with legal or regulatory provisions and would be untenable in practice. In most cases insurance brokers simultaneously work in a number of sectors, exclusively working for the life insurance segment as an exception.

SRO-SIA

The *main focus of activity* of the SIA’s Self-Regulation Organization (SRO-SIA) was drafting a model training concept entitled "Combating Money Laundering" for life insurers, publishing two more editions of *SRO-SIA News* (available in German and French only) and initiating several consultation procedures on legislative revisions.

Following a survey of SIA members, the Head Office drafted a model training concept entitled "Combating Money Laundering in Life Insurance" in German and

French. It details the minimum requirements to be satisfied in training employees on the subject of combating money laundering. The goals of training are to heighten the awareness of employees, promote their sense of personal responsibility in combating money laundering and learning the relevant regulations. The training concept does not pretend to be exhaustive. It is merely designed to serve interested companies as a stimulus for developing a training program of their own catering to their own organizations and requirements.
In "Bilaterals II/Combating Fraud and Money Laundering" the SRO-SIA endorsed the idea that the money laundering concept as defined in Swiss law not be changed. The regulation according to which finance intermediaries have not committed a criminal offense as defined by the Penal Code when they fail to take organizational precautions against money laundering pursuant to EU law was deemed practical and useful.

By publishing two further editions of *SRO-SIA News* in German and French, the SRO-SIA took account of the interest of its members in increased information.

The Head Office also responded to queries of SRO members on the interpretation of the SRO-SIA Regulations. Responses of principal importance were published in *SRO-SIA News* in excerpted form.

During the year under review, the member companies filed eight reports of suspected money laundering with the Money Laundering Reporting Office (MROS). The number of reports filed has remained virtually unchanged since 1998 and is substantially lower than for other financial intermediaries. This assessment obligates the responsible bodies of the SRO-SIA and its member companies to continue the measures introduced for combating money laundering and to adapt them to the new methods and practices of organized crime.

During the past couple of years an international economic system has evolved which facilitates money laundering and international crime. Highly-developed financial centers with their efficient financial market infrastructure are particularly susceptible to abuse. Switzerland accords top priority to effective measures counteracting the abuse of its financial center for criminal purposes, having created one of the densest and strictest regulatory frameworks in the world.
Life insurers attentively monitor the development of international white-collar crime and initiate requisite measures in a timely manner. In so doing they make a major contribution to preserving the reputation of trust and confidence of Switzerland, Inc. in general, and the Swiss life insurance industry in particular.

2.3 Antitrust law

In its communication dated 27 January 2005, the SIA issued its position on the draft of the competition authorities pertaining the Proclamation Pertaining to Agreements of Small- and Medium-Sized Enterprises (SME Proclamation). The SIA welcomes the clarification of the legal practice of the competition authorities in the SME Proclamation. It should be noted that there is a good reason for a stricter approach being introduced in Switzerland as compared to the EU. The result of the consultation procedure is still pending.

The SIA is striving for a proclamation for the insurance industry in agreement with the competition authorities. The SIA has prepared a draft based on the block exemption regulation in the EU insurance sector. When negotiations will be concluded is not yet known.

2.4 Genetic testing

The Federal Law on Genetic Testing in Humans was passed by Parliament in 2004 and is to enter into force in the course of 2006. It prohibits insurance companies from inquiring about genetic testing conducted in the course of presymptomatic examinations. The only exceptions to this are endowment policies of over CHF 400,000 and disability insurance in excess of CHF 40,000 a year.

These amounts are unequivocally too high as very few policies exceed these sums. To be sure, a right to inquire has been anchored in law in any event. In addition, the federal authorities are willing to re-examine the insured sum limitation in a few years when genetic testing is more frequent.

2.5 Other legal issues

2.5.1 Data Privacy

Handling the data of insureds is an indispensable fundamental of the insurance business. That is why ongoing developments pertaining to data protection are of key importance to the insurance industry. Although the central importance of data protection is beyond question, economic concerns also have to be taken into consideration. Regulations have to be provided for which are practicable.

The current partial revision of the Federal Law on Data Privacy leaves something to be desired in this respect. The Federal Council issued its report and positional statement on 19 February 2003. The insurance industry is not against the revision in principle but rather it supports the view that the new regulations shouldn't unnecessarily impede transacting insurance business in an efficient manner. That is why the SIA rejects the new opposition proceeding in particular. This would de facto result in companies not being able to process any data for ca. three weeks, i.e. they would be prohibited from processing any data until an appeal is filed. The potential for abusing the law by virtue of this new provision is a foregone conclusion. It would enable unpopular clarification processes to be blocked or delayed. In the case of a loss, the requisite timely investigations by insurance companies would be blocked for three weeks.

The debates to date in the National Council and Council of States during the year under review have clearly shown that Parliament has recognized the shortcomings of the draft bill proposed by the Federal Council, which is currently revising same.

2.5.2 Export risk insurance

The Federal Council issued its report and positional statement on the Federal Law on Swiss Export Risk Insurance (SERVG/LARE) on 24 September 2004. SERVG/LARE is designed to replace the current Federal Law on Export Risk Guarantees. The purpose of the current and the new law is to create and sustain jobs and promote foreign trade. The revised law is centered around expanding the export risk insurance activities of the federal government. In the future, it can also insure companies against payment defaults on the part of private purchasers ("private purchaser risk"). This revision is also designed to reorganize the government export risk guarantee. The federal fund is to be transformed into a public-law institution with a legal personality of its own called Swiss Export Risk Insurance (SERV/ASRE).

Providing for expanded coverage addresses a concern of the Swiss machinery and equipment industry. The central importance of a strong export sector is beyond question. At the same time, expansion also affects Swiss private insurers as export risks are also covered by the private insurance industry. Consequently, the revised law also affects the interests of private insurers. On 24 January 2005 the SIA was afforded the opportunity of presenting its concerns pertaining to the bill before the Federal Council's predeliberative Economy and Levies Commission. The bill was deliberated in the plenum of the National Council in the 2005 spring session.

3. Individual insurance segments — current developments

3.1 Life insurance

This segment continued to have to cope with difficult conditions in 2004 after the benefits disbursed in 2003 exceeded premium revenue for the first time. The segment was dogged by low interest rates in particular. Declining premium revenues were noted in individual as well as group insurance, falling back to the 1997 level. However, the technical results exhibited a substantial improvement. Improved investment earnings were also to be noted.

3.1.1 Individual insurance

In 2004, low interest rates had a damping effect on the individual business. Premium revenue dropped perceptibly on the whole. However, the performance of the individual insurance segments varied considerably. Whereas insurance company revenue was virtually stable as compared to annual premiums, with slight growth being noted by unit-linked policies, single-premium insurance policies experienced a sharp decline. Apart from low interest rates, the problem is compounded by the stamp duty of 2.5% payable on single-premium policies.

3.1.2 Group insurance

2004 provided for some relief although one key factor, the continuing overly high conversion rate, still posed a burden to the group business. This is primarily due to the fact that the Federal Council established the minimum interest rate for 2004 at 2.25% in view of the difficult situation of many occupational pension funds. The situation will remain uncertain as long as there is no formula for the minimum interest rate. The minimum interest rate for 2005 was raised to 2.5% although the interest rates for new federal bonds have remained low.

The lowering of the conversion rate in excess of the statutory minimum also had an easing effect. Combined with a motion forwarded by Parliament it provided the trigger for an in-depth analysis of the differences between the generation tables of the life insurers and the period tables of the pension funds. Based on this analysis, a working group has prepared proposals for establishing a lower conversion rate, also in statute.

The group business of Swiss life insurers declined on the whole in 2004. However, the performance of the individual insurance companies varied considerably. This is not least also an expression of the consciously conservative underwriting policy of individual companies.

3.2 Health and accident insurance

3.2.1 General situation

During the past few years, the costs of non-occupational accidents of the Swiss National Accident Fund (SUVA) and private insurers have risen sharply. As a result of this development, caused among other things by changes in the off-work behavior of insureds, the SIA was prompted to issue a recommendation to its members pertaining to a 13% hike in net premium rates for non-occupational accidents as of 1 January 2005.

As resolved by the Federal Council, recipients of disability and surviving dependent pensions disbursed by compulsory accident insurance will receive a cost-of-living supplement of 1.4% from 2005. In so doing, the Federal Council is taking into account the adjustment of pensions under the Federal Old-Age and Surviving Dependants' Pension Scheme (AHV/AVS) as of the same date. By contrast, the Federal Council dispensed with the proposed increase of the highest insured earnings in compulsory accident insurance and the premium surcharge for the prevention of non-occupational accidents.

On 26 September 2004 the Swiss people voted in favor of the introduction of paid maternity leave as proposed by the Federal Council and Parliament. The revised version of the Federal Law on Income Compensation Regulations stipulates that insurance policy conditions providing for maternity daily allowances shall become null and void upon entry into force of the new regulations. In so doing, the introduction of paid maternity leave forced the daily benefits insurers to accordingly adapt all their policies.

In addition, the daily benefits insurers went to a great deal of effort to improve collaboration with the Disability Insurance Scheme (IV/AI) offices. In a working group consisting of representatives of health insurers, the Swiss Federal Office for Social Security and the Conference of IV/AI Offices, the goals and the content of this collaboration were detailed in the form of a manual.

3.2.2 Medical fees and compulsory accident insurance

The period under review was shaped by new developments in hospital rates policy. Lump-sum case rates were introduced in government-run and government-subsidized hospitals; the rates of the private hospitals were established anew and the development of a rate model for rehabilitation clinics initiated.

3.2.2.1 Lump-sum case rates and SWISS-DRG

Last year other cantons (Uri, Nidwalden, Obwalden, Fribourg, in so doing joining the ranks of Schwyz, Ticino, Vaud, Zug, Valais, Berne) switched from a per-diem-based rate system to a diagnosis- and case-based one. In compulsory accident insurance, this pertains to the APDRG lump-sum rates (APDRG = All Patient Diagnosis Related Groups). These lump-sum rates act as a counterincentive to extending in-patient stays since compensation is no longer based on the length of treatment.

Nation-wide uniform lump-sum case rates are currently being established. Several umbrella organizations (cantons, hospitals, social insurance providers and medical community) have joined forces in this Swiss DRG project. The project is slated to be completed by 2007, this perceived to be an extremely ambitious goal.

3.2.2.2 Private hospitals: new rates and fees schedule

In the compulsory accident insurance area, may private hospitals have concluded a contract with the Medical Fee Commission under the Accident Insurance Act (MTK/CTM), following the hospital rates and fees model. The amount of the partial lump-sum rates was capped in 1996 for various reasons. This ceiling can hardly be justified any more and is increasingly meeting with resistance: Some private hospitals de facto no longer treat patients with basic compulsory accident insurance coverage. Consequently, it was decided that a new schedule of rates and fees be established for all private hospitals in 2005. Clinics are afforded the opportunity to switch to lump-sum case rates (APDRG) by 1 July 2007 and to take part in the benchmarking. The partial lump-sum rates of clinics that don't switch over to APDRG are to be frozen at the level in effect on 30 June 2007.

3.2.2.3 New rates schedule of rehabilitation clinics

The Medical Fee Commission under the Accident Insurance Act (MTK/CTM) is developing a modern rates model in tandem with hospitals: In-patient rehabilitation services are to be compensated in a differentiated manner for those in specialist areas relevant to the compulsory insurance coverage (first phase: musculoskeletal, neurological and early rehabilitation). Drafting of the concept is to be completed by the end of 2005 so that it can be implemented starting in 2006. The second phase will involve fine-tuning the rates model for other disciplines, while enhancing cost transparency at the same time (cost unit accounting instead of general financial accounting). The third phase will involve the development and introduction of a comprehensive patient classification system in rehabilitation. The rates model is to be introduced nation-wide.

In the view of insurers, the goal of this project is to provide for a just performance-oriented compensation and improved comparability of offerings.

3.3 Property insurance

The premium growth noted in 2003 in the property insurance lines was unfortunately not continued in 2004. To be sure, a slight decline was to be noted in the fire and fire business interruption insurance segments. This erosion of premiums, particularly in the SME and industry sector, is due to heightened competition.

By contrast, slight growth is to be noted in theft insurance and water damage insurance. A continued rise in premiums is noticeable in glass insurance as compared to the year before.

A rising cost of claims trend is to be noted in the property insurance sector on the whole. One conclusion that can be drawn from this is that prevention is becoming increasingly more significant in today's market environment.

The specialist bodies in charge continue to be in the process of developing tools for better dealing with locations increasingly prone to flooding. This extends to associated risk maps, technical recommendations for builders, etc. Coordination with the respective cantonal authorities is key in this connection. The actual implementation of these measures will take quite a bit of time.

3.3.1 Swiss-wide earthquake insurance

On 8 November 2004 the Swiss Earthquake Service of the Swiss Federal Institute of Technology in Zurich presented a new earthquake hazard map of Switzerland. It shows that a latent danger is also posed to our country by severe earthquakes, meaning it would be a fatal mistake to assume that we are immune to this danger. Prof. Domenico Giardini, Director of the Swiss Earthquake Service, also shares this view and urgently calls for an improvement of the earthquake safety of buildings and current earthquake insurance offerings.

The SIA's project of providing Swiss-wide earthquake insurance in analogy to natural-loss insurance has yet to be approved by the Federal Office for Private Insurance (FOPI). One reason for this is that an attempt is being made to provide a nation-wide solution to the earthquake insurance coverage problem, i.e. involving the cantonal building insurers. To be sure, the requisite legal foundation is lacking at this time. The possibilities for creating one are currently being investigated. In the event that a legal foundation is not viable within a reasonable amount of time, which is likely, meaning a Swiss-wide solution would be years in the making, the private insurers would reactivate their project and promote its realization, so to speak as a step toward a joint solution with the cantonal building insurers. Either way, the goal of introducing a Swiss-wide earthquake insurance on 1 January 2006 outlined in last year's annual report is not achievable.

3.3.2 Swiss Institute of Safety and Security

2004 was marked by intensive discussion with private insurers in general, and the SIA's Loss Committee and the Property Insurance Commission in particular. The main focus of this work was on financing the services of the Swiss Institute of Safety and Security. If a service can be attributed to a company, then it should be charged for it directly. If services benefit all companies equally, then all should be charged a lump-sum fee.

Considerable effort has been put into making the benefits offered by the Institute more visible to private insurers. A web-based risk information portal is being made available to its members, i.e. the underwriters and risk managers in particular. It contains audit reports of all the Institute's operations and inspection reports of all the acceptance testing and checks conducted.

A quality management system according to ISO was implemented in order to make efficiency improvement and customer orientation within the Institute of Safety and Security sustainable long-term efforts.

With total revenues of CHF 19.1 million in 2004, the Institute was still able to show a 1.1% improvement as compared to the previous year, despite the dire economic situation. This favorable showing enabled needed investments to be financed, and the membership dues of the private insurers to be lowered by another 3.4% for 2005.

In the course of expansion of activities in the Spanish and French market, the Institute of Safety and Security set up an office in Spain (Barcelona). Its activities are centered on consulting, training and education.

One main focus of the Institute's work during the year under review was to improve its information offerings. This included setting up a new website geared to the current needs of customers. It is primarily designed to showcase the Institute's service offerings and enable customers to find the information they are looking for more quickly.

3.4 Motor insurance

Motor insurance was virtually the constant topic of reports in newspapers, magazines and the electronic media during the year under review. To be sure, this was prompted by debates about risk-appropriate rates, i.e. discussions about rate factors like gender, cantonal affiliation and nationality. The fact that those of certain nationalities are responsible for an above-average incidence of loss and thus have to pay higher premiums than average was met with incomprehension in some places and even resulted in politically-motivated motions. Generally speaking, however, the great majority were of the opinion that risk-appropriate and causation-based premium calculations were legitimate. The Federal Council stated that charging certain groups of insureds higher rates was permissible if this was justified on the basis of statistical data. In the view of the SIA — who, to be sure, does not exercise any function in how premiums are figured — one's nationality is just one of the many criteria which can impact premiums. Otherwise it is up to each individual insurance company to analyze its own statistical findings and draw its own pricing conclusions. The range of rates imposed and the disparate acceptance policies show that competition plays a role among motor insurers and that vehicle owners can choose among a large number of different products.

In December of 2004, the Swiss Federal Roads Authority (FEDRO) presented the measures proposed in the VESIPO project which were designed to lower the number of road accident victims. No less than 56 measures were proposed, including road safety education, vehicle safety, unification and acceleration of sanctioning procedures. The costs for the proposed measures are put at CHF 670 million a year. In the view of FEDRO they should be financed via motor insurance premiums, i.e. by way of a surcharge of 15% over the next 15 years. Though the motor insurers welcome the accident prevention efforts on the part of the federal government, they warn against overblown expectations with regard to claim payment relief. For one, the extremely costly whiplash-induced disability cases caused by minor rear-end collisions would hardly be affected by the proposed measures. The report will now be submitted to the Federal Department of Environment, Transport, Energy and Communications, who is to submit a proposal to the Federal Council by mid 2005 on how to procedure further.

During the year under review, the Motor Insurance Expert Commission focussed in particular on implementing the Electronic Insurance Card project. Initial testing with the pilot companies proved successful. The pilot program with the first registration office will commence as of the beginning of March 2005. If things go according to schedule, all insurance companies and registration offices will be connected to the system by the end of 2007, thus making paper insurance cards a thing of the past. Otherwise, the Motor Insurance Expert Commission dealt with numerous other topics and projects, e.g. prevention, the Telematics in Road Traffic project, two-phase driver education, the "green card", and the adaptation of legislation. The Commission followed developments surrounding motor insurance in the EU with special interest. EU directives also impact the Swiss domestic market, e.g. the minimum insured sums were adapted in keeping with the EU as of 1 January 2005.

3.5 Liability insurance

From 2000 to 2003 the premium volume in general liability insurance rose by over 27%. This increase is considerably higher than that of the non-life business in general, particularly when the highly expansive health insurance business is excluded for special reasons. The positive upward trend in the liability sector continued in 2004, albeit at a slower pace. The SIA is proceeding on a premium increase of well over 5%. Apparently during the past couple of years improving the ratio between premium revenue and incidence of loss or expenses has been successful, at least in certain areas. However, a rise in the number of claims was to be noted in the year under review as well.

3.5.1 Reservoir Liability Pool

The year under review saw a substantial hike in premiums for all insured risks, caused as the result of a heightened risk consciousness following the rupture in the pressurized line in the Cleuson-Dixence plant and the associated demands of the reinsurance market.

A definitive clarification of responsibilities in this case is far off seeing as the preliminary investigation report issued by the law enforcement authorities has to be supplemented: although it clarified some questions it left others open or prompted new ones which have to be dealt with in depth.

After the policies covering the risks in the cantons of Grisons and Valais were extended only for the year under review, the operators/owners decided to take advantage of a more favorable offer of a foreign insurance consortium for 2005. The future of the Reservoir Liability Pool is open.

3.5.2 Nuclear Pool

Since the votes of May 2003 on the two nuclear initiatives, the more positive general mood with regard to nuclear energy has continued unabated. Consequently, there is thinking out loud about replacing existing nuclear power plants, preferably at the current locations.

There is still no definitive solution for the disposal of nuclear waste although technically mature projects have been submitted. Benken (located in the Canton of Zurich near the German border), one possible location for a waste repository being considered, is to be compared with other location options. The Nuclear Pool is convinced that a secure and sustainable disposal of nuclear waste is feasible; however, the only thing which is needed is political decisiveness.

The Pool is represented in the Closure and Disposal Funds; nuclear power plants have been budgeting substantial funds for both, the funds having been earmarked for the future closure of the plants and the disposal of radioactive waste.

During the year under review, the insurer of the Swiss plants followed the principles established jointly with the plant operators during 2003. The Pool continues to participate in foreign risks, however it performs in-depth technical investigations on site pertaining to the safety, security and professional management of those in charge.

3.6 Transport insurance

Premium revenue growth in this segment was very modest during 2004 as compared to 2003. Fluctuations like these are not unusual in small insurance segments. However, this development coincided with a pronounced increase in the incidence of loss.

The substantial growth of truck traffic observed for many years now has been accompanied by a pronounced rise in the associated crime, resulting in a marked increase in the incidence of loss reported by transportation insurers. The EU's enlargement to the east and the accession of the nine new members has served to accelerate this development. This situation has prompted the transportation insurers to accord more importance to theft insurance for trucks. As a consequence, the Transport Expert Commission is in the process of assessing possible prevention measures to this end.

The annual conference of the International Union of Marine Insurance (IUMI) took place in Singapore during the year under review. Among other things, discussion and analysis revolved around the global growth of crime in the international trade sector.

3.7 Technical insurance

In contrast to 2003, a downward premium trend was to be noted during 2004 in technical insurance. This can't always be prevented in this comparatively small segment, as corporate mergers can cause major assets to be transferred out of the country, for example. The costs of claims remained stable.

The contracting business model is becoming increasingly widespread, also in Switzerland. Not only the technical insurers are being confronted with this development but also the property, liability and credit insurers as well.

The Technical Insurance Expert Commission took on the task of taking stock of the all the insurance options associated with this model, making its findings available to all the above insurance lines. This reference is being combined with recommendations and made available to all market players.

Following from the changes to the standard terms and conditions pertaining to business liability insurance (changeover from a claims-made to a losses-occurring principle), the technical insurers perceived it necessary to accordingly adapt the standard terms and conditions pertaining builders-owner liability insurance. These terms and conditions were also subjected to some other changes as well.

3.8 Legal protection insurance

The upward trend in legal protection insurance continued last year. The gross premium revenue volume for 2004 is estimated at CHF 266 million (2003: CHF 260 million). The payments for insurance claims also increased again slightly during 2004.

Legal protection insurance is becoming increasingly important because litigation is on the rise, with people increasingly seeking the services of attorneys or the courts in settling disputes. In this context it should be remembered that Switzerland's legal protection insurance market still has substantial room for continued growth as many people are not yet covered.

4. Employment issues

4.1 Basic and advanced education and training

4.1.1 Insurance Industry Vocational Training Association

At the meeting of delegates of the Insurance Industry Vocational Training Association (VBV/AFA) on 18 May 2004, the study entitled "Overall Concept for Intercompany Basic and Advanced Training in the Swiss Insurance Industry" conducted by the Institute for Insurance Economics (I.VW) of the University of St. Gallen on behalf of the SIA occupied a central position. The other administering institutions apart from the SIA utilized this opportunity to air their views on the results of the study and continuing developments. During the year under review, the work of the VBV/AFA Board was accordingly marked by the implementation of various strategies. Notable progress was to be noted in all areas. The VBV/AFA is confronted by further challenges by virtue of the decision of the Swiss Banking Association (SBVg/ASB) to pursue its own course in the future when it comes to advanced professional training. The VBV/AFA is now forced to revamp advanced professional training in the insurance industry in an extremely short amount of time. Drawing upon the expertise of various groups in our industry, the idea is to take this opportunity to rethink the entire professional qualification system.

4.1.2 Project education@insurance

In the Overall Concept study (see section 4.1.1) the authors proposed the establishment of an insurance expertise center (IEC) within the framework the "Qualified Expertise" strategy. The project task of developing an IEC was integrated in the study. The VBV/AFA has realized the first phase of the IEC project as commissioned by the SIA's Human Resources and Training Commission.

The business case was used to demonstrate that establishing a self-supporting center of expertise is possible. This was followed by the first realization phase involving the evaluation and setup of an electronic learning platform with the support of the Learning and Information Media Unit (LIM). In addition to the technical implementation, the business model was further developed in the business plan (processes, quality assurance) and a pre-investment analysis conducted.

The insurance expertise center was launched in January of 2005 under the name of education@insurance. The paradigm shift — opening up offerings to the participants of other companies and sending one's own employees to the courses of other companies — has become reality. The new project is being boosted by way of targeted communication measures.

4.1.3 Insurance Management School

The Overall Concept (cf. section 4.1.1 above) contains a proposal for the establishment of a management school. It has been demonstrated that certain advanced education and training gaps are present in high-potential staff. During the year under review, the Institute for Insurance Economics (I.VW) of the University of St. Gallen completed a concept commissioned by the SIA for an Insurance Management School at the University of St. Gallen. The first 6-week course is to be offered already in the spring of 2006, providing the SIA Board gives its go-ahead.

The Insurance Management School (name for the time being) is designed to combine leading-edge management knowledge with insurance industry expertise at a high level. Fundamental importance is to be accorded to the international aspect of the education offerings and practical relevance. Based on process-oriented learning, the courses are to be concluded with a diploma. The detailed project studies proceed on the basis of 30 course participants. The object is to offer the courses at rates as are typical in the industry and that they be self-supporting.

4.1.4 Advanced education and training: certificate and diploma

The *Institut Romand de Formation en Assurances* (IRFA), which was founded at the beginning of 2004, successfully took off, reporting a sufficient number of participants in all module courses offered during the 2004/2005 academic year. Now the IRFA is offering insurance module courses not only Fribourg, but in Lausanne as well.

During the year under review, instructor teams updated the course materials of the following modules: liability, property, health and technical insurance. The national course program, including the entire insurance module course offerings at the VBV/AFA's partner schools, was distributed in electronic form as a newsletter and published on the VBV/AFA's website.

The VBV/AFA organized intensive courses for the Insurance Economics and Insurance Law modules at the beginning of 2005 for the first time. The VBV/AFA offered seminars in the insurance specialist program in the usual fashion. This program is concluded by the advanced specialist examination leading to the diploma (*eidg. dipl. Versicherungsfachexpert* or Swiss-Certified Insurance Expert with Federal Diploma). The following seminars were offered: "Methods and Networking", "Insurance Marketing" and "Claims and Service Management". These seminars are now a standard fixture.

4.1.5 Learning and Information Media (LIM)

During the year under review, the VBV/AFA acquired a license for tutorials on social insurance and introduction to insurance. The social insurance tutorials cover the following: three-pillar concept, coverage under the Federal Old-Age and Surviving Dependants' Pension Scheme (AHV/AVS), Disability Insurance Scheme (IV/AI), Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP), Accident Insurance Act (UVG/LAA), and coordination between pillars. These programs offer 13 hours of instruction in German, French and Italian. Insurance companies can obtain these programs for their staff from the VBV/AFA in exchange for the payment of a license fee.

A revised edition of the "Individual Life Insurance" web-based training course was published in the spring of 2005. Among other things, it takes into account changes following from the first revision of the Federal Occupational Retirement, Survivors' and Disability Pension Plans Act (BVG/LPP).

The work initiated in 2004 on producing a tutorial pertaining to the Insurance Contract Act was continued during the year under review. As soon as the partial revision of the Insurance Contract Act enters into force, the VBV/AFA can offer an updated tutorial on this topic.

4.1.6 Trade literature

The reference guide *Personal and Social Insurance — Fundamentals*, originally published in German, has now also been published in French. It provides a concise overview of personal and social insurance, presenting the complex subject matter of social security in a practical, easy-to-read manner.
Technical Insurance by Alfred Bünzli, the new standard reference work on this insurance line, has been published in French.

4.1.7 Basic commercial education and training

In the summer of 2004 already the second generation started its basic commercial education and training program according to the new private insurance curriculum. The following took front and center stage: introduction and optimization of the e-learning portal and the programmed learning system at www.insuranceatwork.ch. The programmed learning system is currently used by 1000 students, 700 vocational training instructors, and 90 company supervisors as a planning, guidance and control tool for basic commercial education and training in the training and examination area of "Private Insurance Industry".

Three additional printed instruction aids have been published by insurance@work, each of them in German, French and Italian: *Customer and Insurance* (May 2004), *Liability Law and Motor Insurance* (August 2004) and *Property and Asset Insurance* (January 2005). The printed instruction materials by insurance@work provide the binding foundation for the intercompany courses in the private insurance industry.

Also during the year under review, the VBV/AFA conducted various training programs for basic commercial education and training entitlement groups (vocational training instructors, instructors of inter-company courses, and examination experts).

The insurance sector continues to be prominently represented in the bodies in charge of basic commercial training. The VBV/AFA's examination officer was elected to the Swiss Board of Examiners, thus representing our sector in the Swiss Conference of Commercial Education, Training and Examination Sectors (SKKAB/CSBFC).

During the year under review, the Basic Commercial Education and Training Unit lost its head, Roger Tantanini, who died following a serious illness. He was replaced by Roger Tantanini. We would like to express our gratitude to Roger for his tremendous dedication and commitment on behalf of the young generation of qualified staff of the insurance industry.

4.1.8 Swiss Board of Vocational and Advanced Specialist Examinations in Banking, Insurance and Financial Planning

During the year under review, the educational policy of the Swiss Board of Vocational and Advanced Specialist Examinations in Banking, Insurance and Financial Planning (BVF/BAP) underwent a number of fundamental changes. After various studies were completed on the modular BVF/BAP system, which, among other things, delved into the strengths and weaknesses of the system, the BVF/BAP perceived there to be not only many positive aspects but also an urgent need for reform as well. After one of the BVF/BAP's main sponsors, the Swiss Banking Association (SBVg/ASB), proposed fundamental options in a study of its own, the association's executive board made a decision on 6 December 2004. The future model selected is the most radical solution in the BVF/BAP's view. The association decided to leave the BVF/BAP in the medium term in order to establish a training and qualification entity of its own, i.e. an institute of banking and finance. The insurers and financial planning specialists in the BVF/BAP were not included in the association's strategic reorientation. They regret the reorientation of the banks, with whom they had established a highly successful modular system in 1999, and now have to quickly decide for their own part how they intend to proceed. Hearings on this took place in February and March of 2005.

Being a modular, training-occupation-oriented examining board, the BVF/BAP will continue to offer its existing modules in the present form for only a limited period of time, i.e. through the end of 2008.

Instead of striving for improvements in the system, the BVF/BAP now perceives its main task to lie in bringing the system to a respectable close and transitioning it into new vehicles. The Swiss finance sector will not want to leave all of the candidates still in the system to their own devices with an unfinished program and examination. It has to be in the interest of the banking and insurance industry to offer the examinations in all of the 56 modules in demand until their completion through the end of 2008 in a proper, high-quality manner. All of the experts in the BVF/BAP system are called upon to continue contributing to a well-trained new generation and to do their part even if the motivation for working in a "discontinued model" might not always be easy to muster. These same specialists are sure to be in demand and highly welcome in the successor model.

In the 2004 examination year, 3,396 completed the ca. 12,980 module examinations in 56 modules (certificate and diploma level, in three languages).

4.2 Regulations pertaining to insurance intermediaries

In the context of the implementation of the regulations pertaining to insurance intermediaries, the Insurance Industry Vocational Training Association (VBV/AFA) dealt in particular with the professional qualification of these individuals. It followed up on developments at the political level in tandem with the SIA. Various meetings with the Federal Office for Private Insurance (FOPI) took place to this end.

The VBV/AFA's Insurance Intermediary Unit developed instructional content for a practical training part and proposed various practical provisions and implementing regulations in the sense of scenarios so that work could be quickly initiated and/or continued in keeping with political requirements.

The draft of the Ordinance on the Insurance Supervisory Act (Supervisory Ordinance (AVO/OS)) was published at the beginning of September 2004. This draft did not cater to the ideas and reality of the insurance industry in many areas. Provisions have been incorporated into the ordinance and annex which don't belong there. This consequently made the detailed position paper issued by the SIA all the more important. The VBV/AFA's Insurance Intermediary Unit drafted a position paper addressed to the VBV/AFA's executive board and the SIA.

The provisions in the draft Supervisory Ordinance (VE-AVO/AP-OS) were somewhat unfortunate in places. The FOPI then commissioned a working group composed of representatives of the insurance industry and other interested groups. In the course of four meetings, the key points were discussed and a consensus achieved (e.g. on instructional content, examination types).

Within the VBV/AFA, the executive board commissioned a working group composed of representatives of the VBV/AFA's Insurance Intermediary Unit and the Learning and Information Media Unit (LIM). This working group was tasked with examining all open questions with regard to the Cybertest testing and examination tool so that this software, corresponding content/questions, technical infrastructure and relevant processes and procedures could be clarified in a timely manner.

4.3 Insurance Compensation Office

Co-founded by the SIA and the Swiss Association of General Insurance Agents (SVVG/FSAGA), the Insurance Compensation Office collected in excess of CHF 547 million in contributions during fiscal 2004 for the Old-age and Surviving Dependants' Pension Scheme (AHV/AHS), the Disability Insurance Scheme (IV/AI), Income Compensation (EO), and unemployment insurance. This corresponds to a sector wage volume of approximately CHF 4.37 billion. During the same period, the Office disbursed CHF 215 million in AHV/AHS pensions, CHF 39 million in IV/AI pension benefits, and CHF 6.4 million in income compensation benefits. As of the end of 2004, the Office registered 10,377 AHV/AHS pension recipients and 2,447 IV/AI pension recipients.

From the point of view of administration, 2004 can be termed a routine year; no major legislative changes were to be noted. To be sure, preparations had to be made for the adjustment of benefits (AHV/AHS and IV/AI pensions) due to go into effect on 1 January 2005.

5. Medical Service

5.1 Treatment of whiplash

In spring of 2004, the Swiss Insurance Association was able to publish the final report on the three studies pertaining to the research on the causes of whiplash (or cervical acceleration/deceleration (CAD)) and the associated risks and therapies administered.

The point of departure of these studies was the fact that of the ca. 10,000 people injured by whiplash in Switzerland every year, a chronic health problem developed in 1,000 victims combined with a high disability risk, costing liability insurers in particular upwards of half a billion Swiss francs every year. These costs, and the individual patients behind them, prompted the SIA to commission the three studies.

The Radanov study shows that simultaneous psychotherapy in particular can result in greater relief of complaints, however it has to be continued over a period of several months in order for a sustained effect to result. In the Rand study, a synthesis was drafted on the basis of three modules from which the recommended therapy procedure, or case management, for whiplash was developed. This case management was designed especially for insurance experts. The follow-up experiments conducted and evaluated in the course of the crash study form an important foundation for sound technical accident analyses, particularly as far as the assessment of collision behavior of new-generation cars is concerned. The reference database was created so that the ascertainment of the facts in connection with the claims filed could be more broadly supported and the results from computer-aided accident analyses better validated. This should result in a higher degree of acceptance by attorneys and the courts. For a detailed description of the studies and the comprehensive results supplied by them, consult www.med.svv.ch.

Following from the studies and the case management derived from them, a significant increase in the rehabilitation and reintegration rates can be expected. This also shows that insurers take whiplash seriously and that they initiate measures that are not only their own interest but also especially in the interest of the insureds as well.

5.2 Congresses and conferences

The Rehabilitation Congress was conducted in Interlaken in April 2004 in cooperation with the Swiss Association for Rehabilitation (SAR) and the Swiss Society for Physical Medicine and Rehabilitation (SGPMR/SSMPR). For two days, medical, paramedical and insurance experts discussed the chain of therapy of a seriously injured individual from the scene of the accident to his or her complete reintegration.

The compulsory accident insurance seminar for loss officers took place in October of 2004. For the first time, the conference was conducted as a national conference in Interlaken, with simultaneous interpreting of all papers being offered.

The traditional medical conference for the consulting physicians of the SIA was conducted in Berne in November 2004. The main topics were: "Selected Pathologies of Upper Extremities from the Point of View of Insurance Medicine" and "Violation of the Duty to Exercise Due Care, Malpractice and Accident as the Result of Treatment". It was shown the current state of knowledge concerning the causes and development of various injuries as presented no longer coincide with the etiopathogenetic concepts prior to the entry into force of the Accident Insurance Act in 1984 and should be reconsidered in the revision of the Accident Insurance Act of 2005.

5.3 Personal injury and reintegration

The merger of the two working groups "Cervical Spine" and "Rehabilitation" into the "Personal Injury and Reintegration Working Group" proceeded smoothly. The objective of this working group is to make available to insurance companies tools enabling them to fully implement the guiding principle of "Reintegration over Disability Pension". The exchange of information among the members of the working group is being improved, with the network being constantly updated and expanded both within and outside of companies.

5.4 SIA Medical Project Head

Since 1 September 2004, Dr. med. Magdalena Guggenheim-Schneider has headed various projects with the SIA's Medical Service and acted as liaison with the Winterthur Institute of Health Management (WIG), thus enabling the projects to benefit from potential synergy effects.

5.5 Swiss Insurance Medicine (SIM)

In 2004, the SIA Medical Director continued work in establishing the Swiss Insurance Medicine medical society by contributing in a wide variety of working groups. Work within the SIM and the resulting advances in insurance medicine are considerable and should be supported by all SIA members not only in spirit but also financially by joining this interest group.

6. Prevention

The SIA is continuing its concerted prevention efforts. It supports the Swiss Council for Accident Prevention (bfu/bpa), Swiss Council for Accident Prevention in Agriculture (BUL/SPAA), the Swiss Toxicological Information Center (Tox), and the Swiss Life Saver Society (SLRG/SSS). In addition, the Association conducted two prevention campaigns of its own during the year under review.

The object of the "Knowing is Seeing" eye protection campaign was to reduce the increasing number of accidents involving DIY enthusiasts. To this end, approximately 70,000 pairs of protective goggles were distributed as giveaways at various DIY and hobby marts.

In the "Now you see me" campaign, the awareness of road users was heightened for the hazard potential caused by poor visibility. Reflective jackets were offered at a slashed price at special stands. This campaign will be continued in 2006.

7. Combating insurance fraud

7.1 An integral component of loss management

Insurance companies offer the possibility of protecting one's self against the financial consequences of an untoward event by providing for a safety net of insureds. The occurrence of the event is uncertain and by chance. By filing bogus claims an attempt is made to circumvent this basic insurance principle. In the last analysis, insurance fraud jeopardizes the insurance principle, which is based on the principle of solidarity and mutual trust, consequently it is detrimental to the social fabric and has to be minimized in the interest of the community of insureds. It comes as no surprise that no precise figures can be given concerning the extent of insurance fraud. Estimates and projections of Swiss and foreign companies indicate that at least ten percent of the benefit payments are based on bogus claims. The latest opinion poll conducted by the SIA shows that one in five of those surveyed said they knew someone who had filed a padded insurance claim. Single-mindedly combating insurance fraud suggests itself not only on account of honest policyholders but also in view of the significance of expense and loss ratios reported by companies. Both of these central components can be positively impacted by going to every effort to detect attempted fraud. For some time now, almost all companies can rely on a specialized in-house unit for combating insurance fraud. Legal and law enforcement specialists (the latter former police officers) conduct investigations in the cases referred to them by loss adjusters as suspicious claims. Add to this the claims forwarded to them by electronic fraud detection systems, a relatively recent addition to the fraud combating arsenal, which have flagged these cases as suspect. It goes without saying that the purpose of the investigations conducted by the insurance fraud specialists is not exclusively to detect fraud attempts. Frequently the object is to prove that the claims are legitimate and that benefits can be justifiably disbursed as a result.

7.2 Motor insurance — a popular fraud target

The various lines of motor insurance are by far the most popular target for fraud. Comprehensive motor insurance leads the others as there are constant attempts to defraud the community of policyholders by filing bogus claims. One example of this is smuggling cars out of the country, selling them there and reporting them as stolen in Switzerland. Investigations in these cases often prove complex and time-consuming. But motor insurance isn't the only target of fraud: substantial losses are also reported by house contents and liability insurers. A clear-cut tendency is to be noted in this context of designating a liable party for each non-insured loss. The insurer of the liable party then has to prove that the description behind how the loss was incurred is not corroborated by the facts. If the insurer is able to furnish proof then it rejects the claim and cancels the policy. Apart from this civil liability, a fraudulent claim also incurs criminal liability as well.

Despite this, insurance companies still proceed on the assumption that insureds are honest and that the overwhelming majority of claims are legitimate. However, combating insurance fraud will continue to be of central importance in the future in the interest of all honest insurance customers.

8. Public relations work

8.1 Annual media conference

The interest of the media in the insurance industry remains unabated. Over 40 Swiss and foreign media members took part in the SIA's annual media conference on 26 January 2005. In his *tour d'horizon*, SIA chairman Albert Lauper reported about the sustained upward trend in the private insurance sector, stressing the insurance industry's openness and willingness to talk with all stakeholders. Bruno Pfister, chairman of the Economy & Financial Affairs Committee, presented information about the Swiss Solvency Test, and SIA CEO Lucius Dürr elucidated the topic of risk-appropriate premiums.

8.2 Media talks

In the context of its stepped-up communication activities, the SIA conducted various media events during the year under review. Prior to the autumn session of the National Council and Council of States, the general situation in occupational pension plans was discussed with Federal Assembly house journalists in Berne. The SIA hosted a media talk on accounting and reporting (IFRS) in concert with the insurance associations of Germany, Austria and Liechtenstein in Zurich in January. Business and finance journalists from all four countries attended.

8.3 Media releases and queries

During the period under review, the SIA issued media releases on a wide variety of economics topics, insurance issues and current events, all available on its website (www.svv.ch). The number of media queries continued to rise during the period under review, as did the variety of topics. The following topics again attracted the attention of the media: occupational pension plans, the new financial market oversight, accounting & reporting and solvency issues, earthquake insurance and various bills.

The media's attention was particularly focussed on the insurance issues associated with the undersea earthquake and tsunami in Asia, risk-appropriate premiums or the hail damage of last summer. The SIA chairman and CEO gave various interviews in the print media, with the SIA also becoming an established interview guest in the radio and on television. SIA representatives appeared before national TV cameras no less than six times in December and January alone. The chairman's column in *Schweizer Versicherung* was again a regular feature during the year under review.

8.4 Electronic media

The SIA's Internet offerings at www.svv.ch continued to be expanded and are actively used by the SIA's various target groups. A large number of web visitors subscribed to the SIA Newsletter, which provides information on the SIA's political positions on a regular basis. The SIA's extranet is of central importance on account of the wide range of SIA resources to which it enables access as it enables the interactive exchange of information among the SIA's individual specialist bodies and between these bodies and the Head Office. It also ensures the flow of information from the Association to employees working in the private insurance sector. In addition to internal Association information the extranet also provides up-to-the-minute information on current events of topical interest to SIA members every day.

8.5 Publications

December 2004 saw the publication of the first issue of *Positions of the Swiss Insurance Industry*. This new periodical will be sent to the members of parliament, authorities and government agencies, journalists and others four times a year prior to the sessions of Parliament and thus sensitize opinion leaders to the interests and concerns of the private insurance industry. With its new brochure entitled "Overview of Compulsory Occupational Pension Plans" (available in German and French) the SIA has had an important instrument at its disposal since last summer for explaining the maze of Switzerland's complex 2nd pillar in an easy-to-understand manner. The SIA's new publication "Non-occupational Accident Coverage in Switzerland" (available in German) provides an overview of the current situation and possibilities offered by prevention work. A new edition of *Facts and Figures 2005 — The Private Insurance Industry* was published just before the media conference in January. These publications are available on the SIA's website (www.svv.ch).

8.6 Prevention projects

The prevention of personal injuries and property damage is a key concern of the private insurance industry. The SIA supports third-party projects and conducts prevention campaigns of its own.

Instruction paths are being created at eight locations in mountain areas in Switzerland which teach visitors about the protection provided by intact forests and how they help to prevent natural hazards, enabling the visitors to have fun at the same time.

The instruction path project *Protection.Forest.Man* (www.schutz-wald-mensch.ch) is sponsored by the SIA's Storm & Tempest Pool. The Moléson (Fribourg) and Adelboden (Berne) paths were opened in the summer and autumn of 2004.

The emphasis of the SIA's prevention work is on accident prevention. The "Enjoy sport — Protect yourself" prevention campaign is designed to increase the percentage of people wearing protective gear when engaging in athletic activities. The SIA launched its "Now you see me" prevention campaign with an event in Berne in the autumn of 2004. By providing reflective jackets at an extremely "nice price" the SIA intends increase the visibility of pedestrians and bicycle riders in road traffic.

8.7 Other information activities

The SIA engages in a continuous exchange of views and information with lawmakers, political parties, government agencies, and trade and professional associations. The dialogue was stepped up with groups whose views differ from those of the private insurance industry.

In April of 2005 the SIA continued a series of events pertaining to the system of occupational pension plans in Lugano. The interest in the second pillar exhibited by representatives of SMEs at this information event in Ticino was also high.

During 2004, the Association ran an informational advertising campaign entitled the “Insurance Advisor”, with pieces appearing in 45 issues of *Le Matin dimanche* in Western Switzerland. The topics were taken from all insurance lines.

Internal communication within the Association also extended to the report submitted by the Head Office to the Board every two weeks. In addition, *CEO Information*,[1] a quarterly bulletin in electronic form, continues to be an indispensable source of information.

9. Private Insurance and SUVA Ombudsman

A total of 4,310 cases were submitted to the Ombudsman in 2004. 837 of them did not fall within the Ombudsman's remit because they involved health insurance, occupational pensions, claims under the Federal Old-Age and Surviving Dependants' Pension Scheme (AHV/AVS), the Disability Insurance Scheme (IV/AI), or unemployment insurance. Of the 3,473 queries which fell in the Ombudsman's competence, 2,874 were settled directly with the insurance clients. 599 resulted in intervention action by the Ombudsman with insurance companies. As compared to the previous year, the number of interventions by the Ombudsman increased by no less than 20%. In the report published by the Foundation of the Private Insurance Ombudsman and the Swiss National Accident Fund (SUVA), this increase is attributed in particular to the trend toward an increasing complexity of cases, which made contacting the insurer unavoidable. It should also be noted that despite the efforts on the part of insurance companies to provide for more transparency and communication that is easier to understand, a certain distrust continues to be unmistakable.

In the breakdown of the queries and complaints according to insurance line, life insurance with its 654 cases again headed the rest. It was followed by third-party motor liability (518), health insurance (487), questions relating to coverage under compulsory accident insurance (411), general liability (388), household and personal effects insurance (214), fully comprehensive motor insurance (179), legal protection insurance (169), theft insurance (147), followed by the other insurance lines (total of 306 cases). The life insurance topics involved in queries addressed to the Ombudsman included questions pertaining to policies and to advice and procedural matters. This was in contrast to the other insurance lines, i.e. property, motor and liability insurance, in which benefits and claims adjustment took front and center stage.

The number of complaints received relating to life insurance has increased substantially during the last couple of years. According to the Ombudsman, doubts concerning proper accounting formed the central thread in the queries received by it. Evidently the information provided by insurance companies and their customer advisors is suboptimal, among other things, e.g. with regard to cash surrender values, dividends and bonuses, or risks (e.g. of unit-linked products). In this context the Ombudsman maintains that frequently the accusations were targeted at brokers whose quality of advice, whether good or bad, reflects back on the reputation of the insurance companies.

Of the total o 2004 queries and complaints received during the year under review, the breakdown by region is as follows: German-speaking Switzerland: 77%, French-speaking Switzerland: 15%, Italian-speaking Switzerland: 8%.

10. Association news

10.1 Membership

The list in the Annex provides an overview of current membership in the SIA. New SIA members include various health insurers who also provide coverage under the Health Insurance Act. In-depth information on the integration of these "health fund-like insurers" and their inclusion in several SIA bodies will be provided at the 2005 AGM.

10.2 Annual General Meeting

The 74th SIA Annual General Meeting was held on 24 June 2004 at the Hilton Hotel in Basle. The delegates of 61 members were in attendance. As usual, a large number of guests took part. SIA Chairman Albert Lauper presented a talk entitled “Works in Progress in the Insurance Industry”. The guest speech was delivered by Gérard de La Martinière, CEA President, who addressed the topic of "Reform of Solvency Rules and the Future of European Insurance". The text of the speeches can be accessed on the SIA’s website (www.svv.ch).

Thomas Pleines (Allianz Suisse) was newly elected to the Executive Board. Gerd-Uwe Baden (Allianz Suisse) and Hans Weber (Pax) resigned as Board members. Bruno Pfister (Swiss Life) was elected chairman of the newly created Economy & Financial Affairs Committee. Establishing this new committee required an amendment to the SIA's Articles of Association, which was approved unanimously.

10.3 Executive Board/Board Committee

The Board convened four times during the year under review to discuss its business. The six-member Board Committee met considerably more often than it had previously. The preparation of the main business dealt with by the Executive Board is taking increasingly more time. In view of the quick-paced changes affecting the insurance sector, decisions frequently have to be made which can't be postponed. As of 31 December 2004 Rudolf Kellenberger (Swiss Re) resigned from the Board and the Board Committee upon going into retirement.

10.4 Committees

The establishment of the three committees — Life, Medical/Accident and Loss Committees — which occurred in connection with the association merger at the beginning of 1998 has proved an organizational success. It was resolved that a fourth committee be created, the Economy & Financial Affairs Committee. This new committee was formally anchored by an amendment to the SIA's Articles of Association passed at the 2004 Annual General Meeting. The following three intersectoral commissions report to this committee: Financial, Investment and Monetary Issues; Taxation; and Accounting & Reporting. The Economy & Financial Affairs Committee is tasked with monitoring developments in financial market oversight and accounting in the broadest sense of the terms, both at the national and international level. This committee was heavily involved with the Swiss Solvency Test in particular in the context of the passage of the revised Insurance Supervisory Act and the finalization of the Supervisory Ordinance.

10.5 Head Office

The Head Office with its ca. 30-strong team is headquartered in Zurich, forming the operative component in the SIA's structure. Under the authority of the CEO, the Management Board is responsible for implementing the Association's decisions relating to management and administration issues (Articles of Association, mission statement, action plan, bylaws). The head office units also provide technical and administrative support to the voluntary bodies. During the year under review, members were added to the Communications Unit team.

10.6 Commissions and other bodies

The work of the various commissions, working parties, project groups, delegations and task forces at the central and committee level again occupied front and center stage in the Association's work. The SIA's "double-duty volunteer system" — in which members contribute their time in addition to their normal duties at their corporate employers — continues to play a key role within the Association: It is only thanks to the willingness of the member companies to "loan" their specialists for the important work of the SIA's individual bodies that it is even possible to manage the multiple, comprehensive and increasingly complex and urgent work of the Association from the comparatively small Head Office.

During the year under review, the commissions, in which over 300 experts and specialists contribute their services — were subjected to an in-depth performance review. It was investigated in particular whether efficiency gains could be realized by changing from the current system of (mostly) permanent expert commissions to increased project management with ad-hoc groups. The analysis, which included all committee and commission chairmen, came to a clear-cut negative conclusion. The existing commission structure still proves to be highly effective and will basically be continued. However, a number of adaptations and adjustments have been made, particularly in the central commissions.

International

1. European Union

1.1 Bilateral Treaties

In the final vote of 17 December 2004 the National Council and Council of States passed by a large majority the extension of the free movement of persons to the new EU member states (Bilateral I) as well as the eight Bilateral II treaties. These agreements with the European Union are of vital importance to the Swiss economy, including the insurance industry. Consequently it welcomes the clear-cut parliamentary decision which translates into a logical continuation of the bilateral path and, thus, is for intents and purposes the currently only viable option in dealings with the EU. The good relations between Switzerland with the EU members, above and beyond Switzerland's key trading partners, can be expanded and consolidated in the process, while safeguarding central Swiss interests. The agreements provide concrete advantages to Switzerland's attractiveness and a finance center, which is why the SIA is bringing its influence to bear in ensuring that the agreements are implemented in a prompt manner.

However, opposition has grown to the Schengen Implementation Agreement/Dublin Convention component of the Bilateral II treaties, which promotes cooperation with the EU in security and asylum matters, the result being that a referendum is being held in June 2005. It is the SIA's conviction that the agreement improves the general situation for business travel and tourism. In addition, it properly takes into account the concerns of Switzerland as a finance center. That is why the SIA is also definitively backs the Schengen/Dublin treaty.

The SIA maintains the same position with regard to the Agreement on the Free Movement of Persons, to be subjected to a referendum in September of 2005. A rejection of this agreement would have negative consequences for Switzerland's domestic labor market. Relations with the (enlarged) EU would be seriously negatively impacted. To be sure, it is inconceivable for the European Union to follow two policies with regard to the free movement of persons. If the proposed draft bill were rejected in the referendum the EU would be entitled to terminate the entire Bilateral I package. This would undoubtedly have serious repercussions for Switzerland, Inc.

1.2 Developments in European contract law

In its communication of July 2001, the European Commission launched a broad debate on the EU-wide unification of contract law. Up until now, European harmonization in contract law has only addressed specific individual issues, generally relating to consumer protection. For example, there are EU directives pertaining to transactions enacted in door-to-door sales and the application of unfair clauses in consumer contracts.

This was followed by the European Commission publishing a plan of action in 2003 and another communication on this topic last October. In its communication of October 2004 the Commission proposes a common frame of reference (CFR) for contact law. As proposed by the Commission, the CFR might be comprised of three parts as follows:

- essential fundamentals of contract law,
- definitions of the key legal concepts of contract law (e.g. definition of the concept of 'contract' or 'damage') and
- model rules of contract law.

A possible harmonization of insurance contract law is also being discussed in the context of this debate. Like contract law, it has played only a very marginal role to date. In its communication of October 2004 the Commission proposes including special module rules for insurance contracts in the CFR. The adoption of the CFR, to be followed by comprehensive consultations, is scheduled for 2009.

Apart from the Commission a private project group has been dealing with the harmonization of insurance contract law since 1999. The project group is composed of professors of various European institutions of higher learning. Their goal is to ascertain the status and situation of insurance contract law in the member states of the European Union and Switzerland and establish the foundation for a subsequent unification of this legal area by performing a comparison of these rules and provisions.

1.3 Lamfalussy process

As detailed in last year's annual report, this accelerated legislative process was extended to the banking and insurance sector in 2004. During the year under review, the Committee of European Insurance and Occupational Pension Insurance Supervisors (CEIOPS) and its subgroups took up work on the Solvency II project. Despite a couple of teething problems and existing demarcation disputes, it an be established that the introduction of this process can be termed a success. The stepped-up legislative pace under the Lamfalussy process as opposed to the codecision process is a refreshing development, particularly in the dynamic insurance environment.

1.4 Reinsurance Directive

The European Commission submitted the draft Reinsurance Supervision Directive in April of 2004. This was followed by deliberation on the draft by a working group of the Council of Ministers, and by deliberation in the European Parliament's Economic and Monetary Committee at the end of 2004. Debate is centered on the financial aspects in the oversight of reinsurance companies (e.g. solvency requirements, rules pertaining to the creation and treatment of loss equalization reserves). The directive will essentially follow the rules contained in the primary insurance directives, however taking into account the exigencies of reinsurance. Not being a EU member, Switzerland has to closely follow the progress of deliberations, in particular as concerns the question of non-member access.

2. Other international organizations

2.1 International Association of Insurance Supervisors (IAIS)

Since its founding in 1994 the IAIS has established itself as a leading mind and trendsetter with regard to insurance oversight issues. In the financial services industry this body is viewed in supervisory circles as a partner on an equal footing with the respective parallel organizations of the banks and securities houses.

The following items were adopted at its general meeting in the autumn of 2004: *Standard on Disclosure Concerning Technical Performance and Risks for Non-life Insurers and Reinsurers* and *Guidance Paper on Investment Risk Management*. Revisions to the following were approved: *Principles on the Supervision of Insurance Activities on the Internet* and *Guidance Paper on Anti-money Laundering and Combating the Financing of Terrorism*.

The general meeting took cognizance of the fact that a Framework for Insurance Supervision is to be developed. As was to be expected, the structure and content of this framework is similar to that of the 3-pillar concept of the solvency model (pillar 1: minimum capital requirements; pillar 2: supervisory review; pillar 3: market transparency and market discipline). By drafting this paper, the IAIS encroaches upon the discussion pertaining to the assessment of solvency of insurance companies.

2.2 OECD

Headquartered in Paris, the goal of the OECD is to promote good governance at the political level, advance liberalization at the economic level, and contribute to sustained growth. The Insurance Committee, which is chaired by Kurt Schneiter

(Federal Office for Private Insurance), is concerned with regulating the private insurance sector in the broadest sense of the word.

The Insurance Committee conducted four-day sessions in July and November of 2004. Switzerland took part in the deliberations of the Insurance Committee by way of a delegation comprised of representatives of the Federal Office for Private Insurance, the Federal Department of Foreign Affairs, and the SIA, and a number of SIA members.

The points of emphasis of the 2004 sessions:

- Developments in supervisory law
- Regulatory framework of reinsurance
- Fluctuations in financial markets
- Coverage of terrorism losses
- Accounting, auditing and reporting
- Private health insurance
- Private old-age pensions

2.3 WTO/GATS

Since negotiations were relaunched in the summer of 2004 little has happened in the current round of trade talks. Negotiations were focussed on outlining and coming to a consensus concerning the work program. However, there is agreement that progress also needs to be made in those areas (e.g. services) which have been put on the back burner on account of the agriculture negotiations. It was agreed that three, four or more informal meetings of ministers should take place as needed until Hong Kong, the first having taken place in Kenya in March of 2005. The first initial agreements are to be reached by August 2005 and drafts submitted. A conclusion of the negotiations in Hong Kong in December of 2005 seems unlikely. The finishing line will in all probability not be reached until 2006.

3. CEA

The general assembly of the *Comité Européen des Assurances* (CEA) took place on 18 June 2004 in Prague, marking EU enlargement. Estonia, Latvia, Lithuania, Slovakia and Slovenia, who had previously had the status of associate members, were accepted into the Association as full members, with Bulgaria being admitted as an associate member. In so doing, the CEA's membership now numbers 32 markets. Gérard de la Martinière, chairman of the *Fédération Française des Sociétés d'Assurance* was elected the new CEA president, succeeding Gijsbert Swalef. Vladimír Mráz, vice-president of the Czech Insurance Association (ČAP), was appointed member of the CEA's Presidential Council. Following Peter Eckert's rotation-induced resignation from the CEA executive board, Switzerland is no longer represented in the CEA's supreme executive body for the first time in many years. This means that active work on the part of the SIA and its members in the various committees and contributing at the regular meetings of the managing directors of the national associations are all the more significant.

4. International accounting and solvency issues

4.1 International Financial Reporting Standards (IFRS)

During the year under review, considerable happened at the international level with regard to accounting and reporting issues. The items of essential importance for the insurance sector are the insurance standards IFRS 4 and 39.

31 March 2004 marked the publication of the long-discussed insurance standard IFRS 4 *Insurance Contracts* and, thus, the conclusion of phase I of the insurance contract project of the International Accounting Standards Board (IASB). According to IFRS 4, companies that already apply IAS in their accounting and reporting policies can continue their policies for the most part, thus enhancing the comparability and transparency of financial statements by way of expanded disclosure obligations, most particularly in the notes section. In making this decision, the IASB gave in to international pressure, now dispensing with the requirement of stating fair value figures for liabilities and obligations resulting from insurance contracts as of 31 December 2006 for the first time. However, it maintained its position of not permitting catastrophe and loss equalization reserves being created in financial statements prepared according to IAS/IFRS.

The discussion concerning phase II, which is devoted to the reporting and valuation of insurance contracts, will be resumed by the IASB in May of 2005. Phase II is the more problematic phase, in view of the fact that many issues that were to be resolved in phase I were "postponed" to this coming phase. The draft of a standard for phase II is expected in 2005, the results of this standard to be applied in all probability starting in 2007/2008.

The European Commission adopted a regulation endorsing IAS 39 *Financial Instruments: Recognition and Measurement*, however excluding certain provisions pertaining to the application of the unlimited fair value option and hedge accounting.

These restrictions essentially follow from the general problem that the impacts of the fair value option have not been definitively clarified and the accusation of the

European Central Bank (ECB) was to be heard that the application of the fair value option could jeopardize economic stability in the European Economic Area.

IAS 39 is to apply to all sectors and is considered to be an interim standard since the European Commission is evidently proceeding on the assumption that other solutions can be found in tandem with the IASB, at least as far as the fair value option is concerned.

The insurance standards IAS 39 and IFRS 4 have been in force since 1 January 2005.

4.2. Solvency II

After the commencement of the project in 2001, the first phase was devoted to defining the legal framework for the new solvency provisions. At the end of 2003 it was decided that the Lamfalussy process was to also be applied to the insurance sector. At this time the Committee of European Insurance and Occupational Pension Insurance Supervisors (CEIOPS) was commissioned to advise the European Commission in issues relating to direct insurance, reinsurance and pension plans.

After the regulatory framework for establishing the future solvency system was established, the project picked up momentum in the second half of 2004. The CEIOPS intends to have the possible development of the new system take place in three consultation phases, to be concluded by submitting a draft. The first consultation, which dealt with the supervisory review process, was initiated in June of 2004. The second consultation, which is scheduled for the first quarter of 2005, is devoted to specifying equity requirements. This is to be concluded by drafting specifications for the achievement of market transparency at the end of 2005. This is designed to target the preparation of a draft directive.

In the Solvency II project, central importance is attached to the question of the values at which assets and liabilities are to be incorporated in the solvency system. Although discussion on this has not been concluded there seems to be a consensus that a form of valuation at 'fair' or 'market' value is needed whose exact form is yet to be determined. Since no market value is available for technical reserves, a method for valuation at the proximate market value of these liabilities has to be found by way of an — ultimately subjective — estimate procedure. The same question also arises in connection with the implementation of the IFRS accounting and reporting standards, whose answer has been postponed to phase II of the IFRS project.

5. Revenue account

The Swiss National Bank (SNB) has been conducting surveys of the insurance companies operating at the international level since 1999 in order to gauge the cross-border business of the Swiss private insurance sector. The findings of the survey for 2000 to 2003 can be summarized as follows (figures are given in CHF million):

	2000	**2001**	**2002**	**2003**
Value of services exported (revenues)	2,582	1,959	4,333	4,759
Value of services imported (outlays)	125	125	133	133
Balance	2,457	1,834	4,200	4,627

The export side of the SNB’s survey essentially includes earned premiums for own account from outside of Switzerland, the incidence of loss (number of claims) and the insurance benefits for own account disbursed abroad, and vice versa on the import side. The lion’s share of the surplus is attributable to reinsurance.

1. List of members

1. ACE Insurance, Zurich
2. Alba Versicherungs-Gesellschaft, Basle
3. ALEA EUROPE AG, Basle
4. Allianz Suisse, Zurich
5. Allianz Suisse Leben, Zurich
6. Appenzeller Versicherungen, Appenzell
7. ASPECTA Assurance International AG, Zurich
8. Assista TCS SA, Vernier
9. AXA Compagnie d'assurances, Lausanne
10. AXA Compagnie d'assurances sur la vie, Lausanne
11. Basler Versicherungs-Gesellschaft, Basle
12. Basler Lebens-Versicherungs-Gesellschaft, Basle
13. CAP Rechtschutz, Zug
14. Chubb Insurance Company of Europe S.A., Zurich
15. Converium Insurance Company, Zurich
16. Coop Allgemeine Versicherung AG, Wallisellen
17. Coop Rechtsschutz, Aarau
18. CSS Versicherung AG, Lucerne
19. DAS Protection Juridique SA, Lausanne
20. Die Mobiliar, Berne
21. Emmental Versicherung, Konolfingen
22. Epona Société mutuelle d’assurances générale des animaux, Lausanne
23. Europäische Reiseversicherungs AG, Basle
24. Europäische Rückversicherungs-Gesellschaft, Zurich
25. Fortuna Rechtsschutz, Adliswil
26. GAN Incendie Accidents, Pully
27. Garanta (Schweiz) Versicherungs AG, Basle
28. Generali Assurances Générales, Geneva
29. Generali Personenversicherungen, Adliswil
30. Gerling, Zurich
31. Groupe Mutuel Assurance GMA, Martigny
32. Groupe Mutuel Vie GMV SA, Martigny
33. HDI Haftpflichtverband der Deutschen Industrie V.a.G., Zurich
34. Helsana Unfall AG, Zurich
35. Helsana Versicherungen, Zurich
36. Helvetia Schweizerische Versicherungsgesellschaft, St. Gallen
37. Helvetia Patria Schweizerische Lebensversicherungs-Gesellschaft, Basle
38. Império SA
39. Infrassure Ltd., Baden
40. Innova Versicherungen AG, Gümligen
41. Inter Partner Assistance, Société Anonyme, Geneva

42. La Genevoise Vie, Geneva
43. La Suisse, Société d’assurances contre les accidents, Lausanne
44. La Suisse, Société d’assurances sur la vie, Lausanne
45. Mannheimer Versicherung AG (Schweiz), Zurich
46. Nouvelle Compagnie de Réassurances, Geneva
47. Orion Rechtsschutz-Versicherungsgesellschaft, Basle
48. PAX Schweizerische Lebensversicherungs-Gesellschaft, Basle
49. Phenix Compagnie d’Assurances, Lausanne
50. Phenix Compagnie d’Assurances sur la vie, Lausanne
51. Protekta Rechtsschutz-Versicherungs AG, Berne
52. Providentia Société Suisse d’assurances sur la vie Humaine, Nyon
53. Rentes Genevoises, Geneva
54. Retraites Populaires Vie, Lausanne
55. Revios Rückversicherung Schweiz AG, Zug
56. Schweizerische Hagel-Versicherungs-Gesellschaft, Zurich
57. Schweizerische National-Versicherungs-Gesellschaft, Basle
58. Skandia Leben AG, Zurich
59. SOS Evasan SA, Geneva
60. Swiss Life, Zurich
61. Swiss Re, Zurich
62. TSM Transportversicherung , La-Chaux-de-Fonds
63. UBS Life AG, Zurich
64. UNIQA Assurances SA, Geneva
65. Vaudoise Générale, Compagnie d’assurances, Lausanne
66. Vaudoise Vie, Compagnie d'assurances, Lausanne
67. Visana Services AG, Berne
68. Winterthur Leben, Winterthur
69. Winterthur Schweizerische Versicherungs-Gesellschaft, Winterthur
70. Winterthur-ARAG Rechtsschutzversicherungs-Gesellschaft, Zurich
71. XL Insurance Switzerland, Winterthur
72. Zenith Vie, Compagnie d’assurances sur la vie, Pully
73. Zürich Lebensversicherungs-Gesellschaft, Zurich
74. Zürich Versicherungs-Gesellschaft, Zurich

The corporate names are not always identical to the trading names of the companies or groups because membership in the Swiss Insurance Association is based on legal relations.

Status as of 20 April 2005