

The rock-solid Swiss insurance industry.

Introduction.

What makes the Swiss insurance industry rock-solid?

It's the rigid regulations of the Swiss Federal Office of Private Insurance. They strictly supervise and govern the activities of Swiss insurance companies to a degree which surpasses all other countries. Conservative, century-old laws determine asset values in insurance companies' balance sheets.

Behind the times? It may seem so, but you are the one to profit from the Swiss insurance industry's conservative stance. Safety and security is top priority - by law.

This report is divided into two sections. The first section contains general information and practical facts important to the international investor. The second section is a summary of a publication issued by the Swiss Federal Office of Private Insurance titled, "Survey of Insurance Supervision in Switzerland", and covers the technical and legal aspects of Swiss insurance supervision.

Part I. No failures – a record that has yet to be beaten.

In the over 150 year history of the Swiss insurance industry, not a single Swiss insurance company has ever closed its doors, failed to meet its financial obligations, or gone bankrupt. When Swiss insurance companies openly claim that their "sobriety, prudence and conservatism make Swiss insurance institutions the safest and most respected in the world", it cannot be dismissed as commercial boasting. These qualities are powerfully present in daily management decisions, within the insurance industry itself and within the insurance industry's watchdog - the Swiss Federal Office of Private Insurance (FOPI). These qualities are also the guidelines for the insurance companies' portfolio allocations. This conservative attitude along with the historically secure Swiss financial system have given utmost financial stability to the Swiss insurance industry.

Policyholders in Switzerland enjoy a degree of security and protection which is maintained more strictly than in any other country, thanks to the long existence of stringent insurance legislation and rigorous supervision of the acquisition, business and premium policies of the insurance companies by FOPI.

The controls and regulations made by FOPI are exceedingly strict. No other sector is so rigorously supervised and probably no other branch of the Swiss economy accepts this supervision with such good grace as private insurance companies, going as far as paying the full cost of the supervision. Together with the strict authorization conditions for the

insurance company, the supervisory authority has prevented any disreputable companies from gaining a foothold in the Swiss insurance market. All Swiss insurance companies must fulfill the high standards set forth by the FOPI. Failures as experienced in other sectors in recent years, or in insurance businesses in the United States and in Great Britain, have not occurred in Switzerland. The Swiss system of strict insurance supervision has proven its worth for the benefit of policyholders and the entire economy.

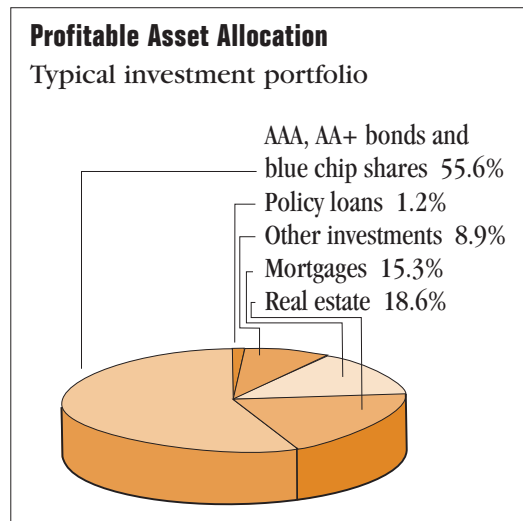
How strict is strict?

The primary aim of the state supervisory board is to protect premium payers from overcharging and to ensure the ability of the insurance company to pay, so that if the insured event or damage occurs, the person insured can be sure of receiving payment. The latter would not be guaranteed if the insurance company - for competitive reasons - were to offer premiums set too low. The result:

Swiss insurance companies must have their rates examined and approved, a function performed by FOPI. It only approves premiums which lie within the premium maximum (protection from overcharging) and minimum (guarantee of payment capability); competition among insurance companies can then take place within these limits, which is in the policyholders' best interest.

Supervision and approval of insurance companies' premium policies is not the end of the course. It would be conceivable that despite a good premium policy, an insurance company would one day no longer be capable of meeting its obligations towards policyholders, e.g. by investing money entrusted in them in risky adventures. FOPI therefore also checks that the companies do indeed invest their funds as profitably as possible, but broadly

based, in order to protect them against risk of losses or variations in earnings from the different investment categories. In addition FOPI supervises the observance of the strict regulations concerning the assurances to be given and the guarantee fund, as stipulated under the guarantee and security laws. For example, escalating real estate values of recent years resulted in market price excesses. As a result, the Swiss legislature was concerned about the large amount of funds being poured into Swiss real estate and, in late 1989, voted to limit the percentage of new capital to be invested in Swiss real estate to a maximum 30% of new funds not yet invested. Not a single Swiss insurance company was endangered by the real estate slump that followed.



The above chart from one of Switzerland's leading insurance companies is representative of the industry and reveals that Swiss real estate-related investments (real estate and mortgages) amount to approximately 34% of the entire investment portfolio and another 56% is allocated to fixed-interest instruments and equities. What this chart does not show, however, is that the real estate holdings are held at the initial purchase price and not at the (sometimes inflated) market value. Bond portfolios are carried in the books at

actual market values. Consequently, a major protective price cushion is factored into the insurance company's portfolio.

No debt!

Liabilities	1998
	Sfr
Technical reserves	5,067,201,542
Actuarial reserves	4,886,397,458
Premiums brought forward	32,444,381
Reserves for outstanding claims	34,911,518
Profit-sharing fund	113,301,660
Other technical reserves	146,527

The largest liability shown above, is "Technical Reserves". This figure represents the "guarantee fund" which is the sum of all cash obligations the insurance company has undertaken to pay. This figure includes all annuity payments due now and into the future and adding all future premiums due, includes all insurance claims which eventually will become due.

New European Accounting Standards reveal hidden reserves

After the start of the European Union's (EU) common market coming, Swiss insurance companies dealing throughout Europe restated their balance sheets in order to comply with prevailing European accounting standards.

As an example, a renowned Swiss insurance company showed shareholder's equity amounting to 2.66 billion Swiss francs. Under the new prevailing European accounting standards, the same company's shareholder's equity was restated as 3.70 billion Swiss francs. As reported by "The Financial Times" of London: "Under the new reporting principles, the figure should actually be adjusted to 4.64 billion Swiss francs"! Proof that assets have been enormously underestimated all along! Nearly all major Swiss insurance companies have understated their true net worth in their balance sheets for dozens of years. Even if a deep financial crisis would engulf the future and assets would be subject to a major deflation, these companies will have enough assets and liquidity to honor all due payments! It is no exaggeration that Swiss insurance companies are indeed the safest in the world.

Part II. Insurance supervision in Switzerland

The supervision of private insurance, existing since 1885, reposes on Art. 34 Paragraph 2 of the Federal Constitution and aims primarily to protect the insured party. The laws which define the range of this supervision and determine the competencies of the Supervision Authority are the following:

- Federal Law of June 23, 1978 on the supervision of private insurance institutions (Law on Insurance Supervision, LIS). It has replaced the supervision law of June 25, 1885.
- Federal Law of February 4, 1919 on the guarantee deposit of the insurance institutions (Deposit Law, DL).
- Federal Law of June 25, 1930 on the security of the claims of insurance policies of domestic life insurance institutions (Security Law, SL).

The dispositions for the execution of these laws are contained in various decrees of the Federal Council. In its supervisory role, FOPI has in addition to pay attention to a certain number of instructions of the Federal Department of Justice and Police (FDKJP) to which it is attached. The insurance contracts signed by Swiss insurers subject to supervision are regulated by the Federal Law of April 2, 1908 on Insurance Contracts (LIC).

Supervision Authorities

The supervision authorities are the FDJP and the FOPI. The supervision as well as the power to make decisions are incumbent upon the FOPI if the LIS does not explicitly reserve the competence to the FDJP. The FOPI is part of the FDJP and consists at present of 30 collaborators, divided into executive management, a management staff, an administrative office and three specialized sections:

- a section for accident, illness and material damage insurances (including re-insurance companies),
- a section for life assurance,
- a legal section.

Supervision System

Every insurance company doing business in Switzerland must be licensed by the FDJP. To receive the license the insurance company has to fulfill conditions as to firm type, capital, organization, etc.

If the conditions are fulfilled the insurance company receives the license. There are no “numerus clausus” nor other local obstacles to insurance business.

The LIS reposes on the principle that only the real control of the insurers subject to supervision secures the effective protection of the assured against the consequences of operations involving losses. The LIS requires therefore a permanent and detailed supervision of the whole business of the insurance companies. The law grants the Supervision Authority the necessary competences.

The principle of an effective real insurance protection encompasses as well the obligation imposed upon the life assurance companies to set apart a portion of their assets for the guarantee of the claims of the assured. For the Swiss life assurance institutions this is attained by the establishment of a Security Fund. It is a legally prescribed fund to guarantee the obligations of the life assurance companies towards their clients. The amount of the “guarantee fund” is principally determined by the mathematical or actuarial reserves. Assets equal to this amount are separated from the remainder of the assets and allocated as security for the rights of the life assurance policyholders.

Competence of the FOPI

The supervisory duty of the FOPI applies to all of the activities of the private insurance institutions subjected to supervision. The business bases, especially the technical, financial and juridical aspects, are routinely examined.

The examination by specialists of the business bases of a private insurance institution is carried out by the FOPI first of all during the treatment of the requests for the authorization to do business which have to be directed to the FDJP (the authorization is only granted if the insurance institution meets the legal exigencies and in particular offers the necessary guarantees concerning solvency, organization and management).

The examination of the report which the insurers have to present every year to the FOPI constitutes a considerable part of its activities. The report has to be established on forms prepared by the FOPI and gives detailed information on all aspects of the business activities. It constitutes the most important document for the critical examination of the situation (solvency) of the companies. Moreover, these reports are used to establish the "Report on the Private Insurance Institutions in Switzerland" published annually by the FOPI. Thanks to the balances, the annual accounts, the tables and the commentaries contained in it, this report gives detailed information on the state of the supervised insurance institutions and on other important aspects of private insurance.

Another duty of the FOPI for the protection of the assured consists of the examination of the elements of the operating plan submitted by the insurers, namely the principles for calculating mathematical reserves, bonus schemes as well as the General Policy Conditions and the tariffs which are allowed to be utilized only after approval by the Supervision Authority. The

Policy Conditions have to conform to legislation and must not contain misconceptions or contradictions. For the tariffs, established on the basis of calculations and statistics submitted to it, the FOPI takes care that the premiums stay within certain limits which guarantee the solvency of the individual insurer on one side and, on the other side, secure the protection of the assured against abuse. The policies issued are regulated by the Federal Law on Insurance Contracts.

The control of the legally required guarantee for the insurance claims constitutes for the FOPI an important aspect of its work. The SL obliges the FOPI to verify once every year at the domicile of each insurance company the amount of the security fund and the correspondence with its cover as well as the presence of the assets allocated to it. The FOPI participates in the administration of the deposits at the Swiss National Bank of all insurance institutions subject to supervision insofar as the choice of the assets requires its approval.

Numerous requests for information on various questions concerning private insurance are directed to the FOPI. The office supplies this information when this seems compatible with the secrecy of office, with its position as a neutral supervision authority and with the principle of the separation of powers. In supplying information - especially if it concerns juridical questions - the FOPI has to consider the principle established in Art. 47 of the LIS according to which it is up to the judge to settle disputes concerning civil law between insurance institutions and assured.

Investment Prescriptions

Every insurance company (life and non-life) must respect the following principles:

- security
- asset yield

- an appropriate diversification in respect to the different categories of investments and their proportion as well as of
- the foreseeable liquidity requirements.

The assets allocated to the guarantee fund serving as cover for the life assurances accepted by assurance institutions are subjected to the private assurance institutions' supervision decree of September 11, 1931 (AVO, SR 961.05). Owing to the revision on December 1, 1986 of this decree, the Swiss life assurance institutions are within certain limits allowed to invest their money in assets of foreign debtors and in foreign currency to cover the liabilities of the Swiss insurance portfolio. Art. 11a, 12 and 12a of the revised supervision decree contain stipulations as to composition, kind and extent of the admissible investments.

As to the assets not allocated to the guarantee fund (or the guarantee deposit) there exist no legal prescriptions concerning the composition of these investments. But the Supervisory Authority in practice pays attention to the maintenance of similar principles as for the assets of the guarantee fund.

SWISS FEDERAL OFFICE
OF PRIVATE INSURANCE

Once again, it's Switzerland's prudent and strict stance which guarantees safety and security of your capital.

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