

# Insurance

As in the banking sector, the turbulence in the financial markets from mid-2007 is likely to have had a negative impact on the insurance industry in an otherwise perfect financial year, affecting results to a greater or lesser extent depending on the line of business. The segments hit hardest by the tremors in global stock markets are, by their nature, life insurance and pension funds, where investment income makes a significant contribution to the bottom line. For non-life insurance, the impact will be far less. Nevertheless, the insurance industry as a whole has been hit by increased volatility in the financial markets at a time when its capital base seems to have become more solid after the setbacks at the turn of the century. According to the Federal Office of Private Insurance, insurers' equity capital in domestic Swiss business areas totalled CHF 54 billion at the end of 2006, a hefty CHF 12 billion more than in the previous year.

## Non-life insurers benefit from favourable claims trend

For non-life insurers, the favourable claims trend continued to have a positive effect in 2007. According to a study by Swiss Re, the level of claims in 2006 was very low – 1988 and 1997 were the only years when there were fewer. In this regard, 2007 also looks promising. The demand for insurance along with the premium rate increases implemented in previous years boosted premium volumes as well as earnings for both non-life insurers and – to a lesser extent – reinsurers. Non-life insurers were able to achieve a slight increase in premiums on average, while in reinsurance business, a trend towards lower rates is emerging and looks set to accelerate in 2008. In health insurance, various measures have been taken that will mean premiums are likely to rise by only about 0.5% on average in 2008. After the high increases following the introduction of the health insurance law in 1996, many see this as the first step towards easing some of the financial burden on premium payers. Whereas reducing the deductible for generic medicines has effectively helped to slow growth in costs, however, it is important to note that the more moderate growth in premiums has been largely funded by a reduction in health insurers' reserves from 15% to 10%, and is thus not sustainable. In any case, the information available on healthcare cost trends up to autumn 2007 seems to indicate that health insurance premiums will rise faster again after 2008.

## Widespread confidence for 2008

Overall, the industry is expecting further growth in premium volumes and earnings in 2008, although this will not be as strong as in 2007. Hiring is set to expand significantly across all business areas. Capital investment activity also looks to remain brisk, given solid earnings and the broad shift in business focus towards new distribution channels. Non-life insurers are even planning a larger increase in capital spending for 2008 than in the previous year. ■

