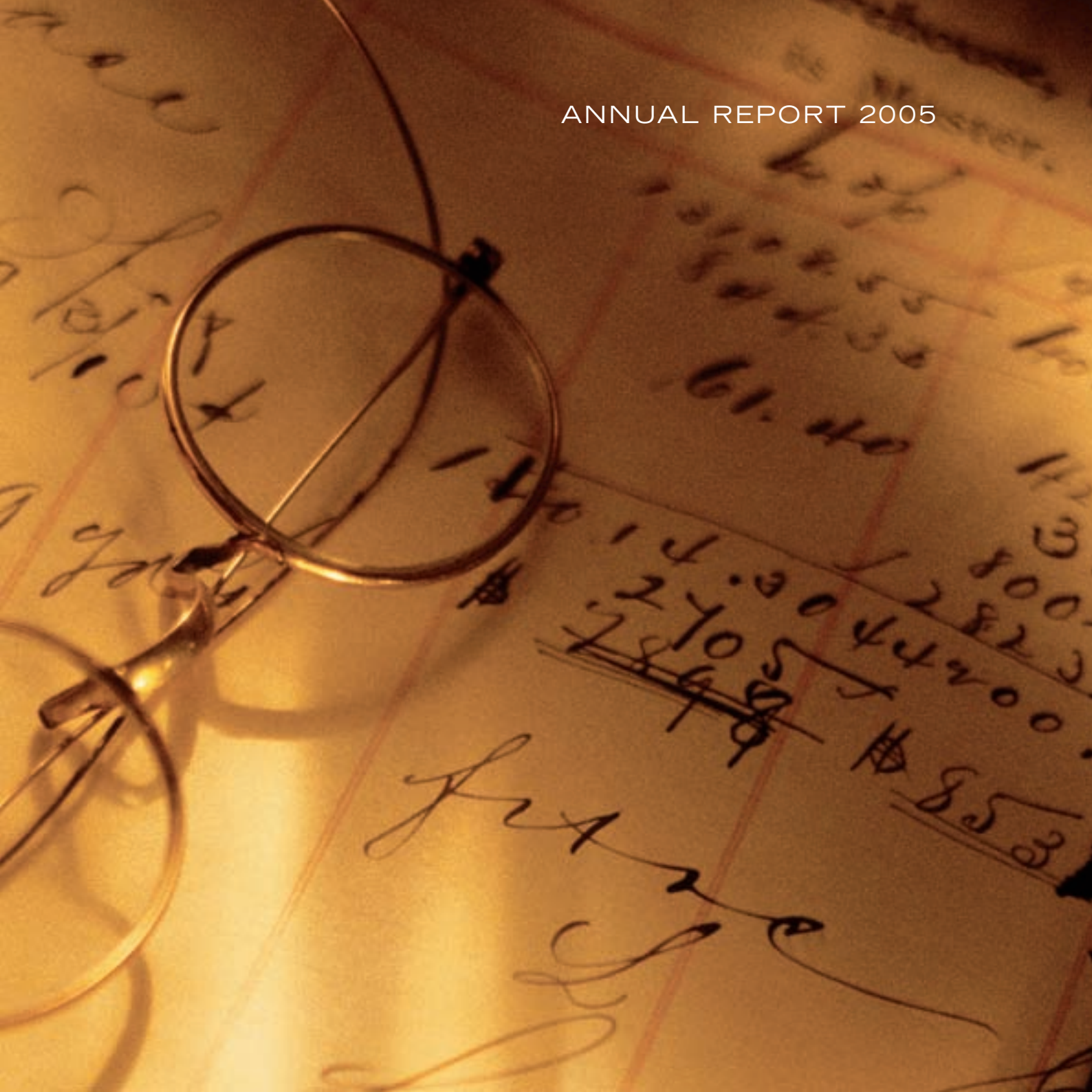


# ANNUAL REPORT 2005



VAKUUTUSVALVONTA

RATIONAL SUPERVISION BASED ON FORESIGHT & KNOW-HOW.



IT IS IMPORTANT THAT OUR INSURANCE MARKETS  
BE SUPERVISED IN A FAIR, IMPARTIAL  
AND RELIABLE MANNER.

2005



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**Reform projects** related to the regulation of employee pension insurance companies were widely discussed during 2005. The central labour market organisations' pension negotiation group has proposed changes in the regulation of employee pension insurers' investment operations in order to improve their income by increasing the share of equity investments in their investment portfolios to 35 per cent over five years. Furthermore, the negotiation group proposes changes in regulations regarding employee pension insurers' solvency and the assets covering their technical provisions, with the specific aim of classifying investment instruments on the basis of the true risks involved. To this end, a legislative project is pending in the Ministry of Social Affairs and Health with the purpose of revising the stipulations regulating the calculation of employee pension insurers' solvency limits and the assets covering their technical provisions.



### Constantly Increasing Supervisory Requirements

In a study commissioned by the Ministry of Social Affairs and Health to analyse the need to amend the Act on Authorised Pension Insurance Companies, Deputy Governor Matti Louekoski states that the changes in asset and solvency regulations, the diversification of investment operations and the increasing assumption of risk pose increasing requirements on the supervision of employee pension insurance companies. While it is easy to share this view, we must emphasise the fact that the responsibility for ensuring probity in operations and risk management lies with the employee pension insurers themselves. This means that the reforms place increasing requirements on the expertise of persons who handle and are in charge of investment operations in these companies as well as on their internal control and risk management systems.

The Insurance Supervisory Authority's (ISA) strategic human resources plan includes the possibility to increase the ISA's solvency supervision resources as required, not only by the supervision of employee pension insurance companies but also through the EU project known as Solvency II, which aims at reforming the solvency requirements of life and non-life insurance companies. The new solvency requirements take better account of operational, insurance and investment risks, and there are also plans to approve the use of individual calculation models for determining the solvency requirements applying to a single supervised institution.

### Independence Vital for an Efficient Supervisory System

In his study on the need to amend the Act on Authorised Pension Insurance Companies, Mr. Louekoski also suggests that the Insurance Supervisory Authority's independence in its supervisory operations

be increased. He finds that the supervisory authority's independence is a vital requirement for an efficient supervisory system as outlined in the principles of the IAIS (International Association of Insurance Supervisors) and CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors). These principles require that the goals of insurance supervision be determined by law while the authority in charge of supervision has the appropriate powers, legal protection and financial resources to exercise its powers and perform its operations in an independent and responsible manner.

#### **Towards a More Market-driven Assessment of Solvency**

With its targeted implementation in 2010, the aim of the new Solvency II framework is to assess an insurance company's solvency status on the basis of a more market-driven evaluation of its balance sheet. According to the trial calculations carried out by insurance companies at the request of CEIOPS, the calculation of technical provisions as required by the new system will pose major challenges to life insurance companies in particular since insurers must take all future cash flows related to insurance contracts, including the options related to such contracts, into account in the market-driven evaluation of assets. This means that, in addition to the return paid to traditional life insurance policyholders on the basis of a technical rate of interest, insurers must evaluate any potential additional benefits that can be paid at the insurance company's discretion in the future. In order to meet these requirements, Finnish insurance companies must have more detailed principles for the application of the equity principle than they have today.

While preparing for future regulatory changes, several EU member states have already adopted solvency tests known as traffic-light systems that apply

methods due to be introduced upon the implementation of Solvency II. In Finland, a non-life insurance solvency test as well as calculations for defining the supervisory limit of the extended solvency margin in life insurance have already been applied for several years. One of the major changes required by the transition to a solvency framework in line with Solvency II is the market-driven calculation of technical provisions. Consequently, Finland should also make its supervisory limit system more market-based at this stage, particularly for life insurance, since this would encourage Finnish insurance companies to develop new methods for the calculation of technical provisions in good time for the obligatory implementation of Solvency II and, based on the experience achieved from these, provide better opportunities for evaluating the impacts of the new solvency framework for Finnish companies.

**2005 proved a busy and challenging year for the ISA in all of its fields of activity. I wish to thank our Board of Directors for their excellent co-operation and our entire staff for their efficient performance in achieving our goals, which are important to the entire society.**



Hely Salomaa  
Director-General







## A. EVERYTHING IS BASED ON OUR CLEAR VISION



2005

THE AIM OF OUR SUPERVISORY ACTIVITIES  
IS TO ENSURE THAT INSURANCE  
OPERATORS FULFIL THEIR OBLIGATIONS AND  
THAT THEIR OPERATIONS AND PROCEDURES  
CONFORM TO THE LEGISLATION IN FORCE AS  
WELL AS SOUND INSURANCE PRACTICE.

# 1. Tasks, Objectives, Success Factors and Strategy

## Our mission:

**The ISA's mission is to promote the financial stability of insurance and pension companies while maintaining confidence in the insurance business.**

## Our vision:

**The ISA is a skilled, efficient and reliable expert authority anticipating the risks associated with the operations of the institutions under its supervision.**

## The aims of our operations: stability and confidence

The primary function of the Insurance Supervisory Authority (ISA) is to promote the financial stability of insurance and pension institutions while maintaining confidence in the insurance business. We seek to be a skilled, efficient and reliable expert authority anticipating the risks associated with the operations of the institutions under our supervision.

Our main task is to monitor and control insurance and pension institutions as well as other operators in the insurance industry. We control and assess the supervised institutions' solvency and solvency development, internal control and risk management systems as well as the reliability of their administration.

Moreover, the ISA checks that the institutions under its supervision abide by the law and good insurance practice and that insurance and pension institutions, insurance intermediaries and unemployment funds apply the appropriate procedures in their customer relationships. One of our responsibilities is to ensure that insurance terms and conditions as well as statutory property and casualty insurance premiums conform to the legislation in force. We also support and promote insurance-related research.

## The Insurance Supervisory Authority's strategy

**2005-2008** defines not only our mission and vision but also our critical success factors and the focuses of our supervision activities.

## The critical success factors of insurance supervision:

1. The institutions under the ISA's supervision have sufficient solvency and other resources necessary to operating in the insurance business.
2. The supervised institutions abide by the law in their operations.
3. The ISA's operations are consistent and co-operation is smooth, with other authorities regulating and supervising the insurance and financing markets.
4. The ISA has skilled and motivated staff.
5. The ISA operates in an economical and efficient manner.

## The strategic focuses of supervisory activities:

### In our financial supervision, we

- focus on the supervision of the more risk-prone and major operators in the insurance industry
- promote the development of internal control and risk management in the supervised institutions
- influence regulatory development related to insurance companies' financial statements, solvency and investment operations, both nationally and within the EU, with the aim of taking better account of operational risks than before
- supervise insurance groups and financial conglomerates together with the Finnish Financial Supervision Authority and foreign supervisors

**OUR MISSION:**

THE ISA'S MISSION IS TO PROMOTE THE FINANCIAL STABILITY OF INSURANCE AND PENSION COMPANIES WHILE MAINTAINING CONFIDENCE IN THE INSURANCE BUSINESS.

**In supervising insurance markets, we**

- focus in particular on ensuring that insurance terms and conditions for consumer insurance conform to the legislation in force and that premium levels for statutory property and casualty insurance are sufficient and reasonable
- ensure that insurance marketing, management and claims practices conform to the legislation in force and promote the transparency of marketing information related to savings-related insurance policies
- keep an eye on the operations of insurance intermediaries in line with the new legislation.

**Our strategy emphasises  
the transparency, consistency,  
economy and efficiency of operations**

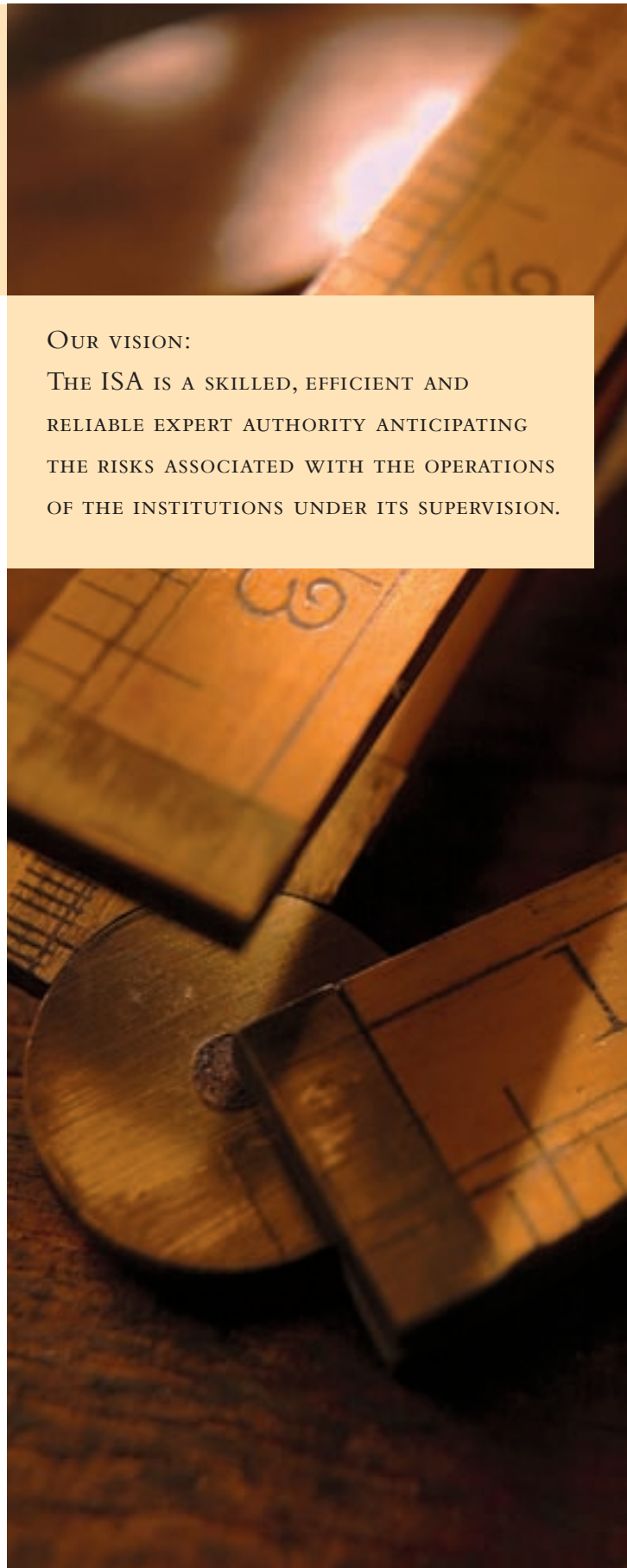
**The ISA ensures the transparency** of its operations and the efficacy and consistency of its supervision processes, participates in creating common supervision practices for insurance supervisors in the EU and maintains crisis management preparedness together with other supervisory authorities.

**The ISA ensures its competitiveness** as an employer by developing its payroll structure and training its staff, by taking special account of the forthcoming amendments to the financial statement and solvency regulations and the analysis competencies required for supervision, and by maintaining the working ability of its employees.

**To ensure economic** and efficient operations, the ISA allocates its resources based on the tasks in hand, towards focal areas in insurance supervision, while encouraging cost-consciousness among its staff.

**OUR VISION:**

THE ISA IS A SKILLED, EFFICIENT AND RELIABLE EXPERT AUTHORITY ANTICIPATING THE RISKS ASSOCIATED WITH THE OPERATIONS OF THE INSTITUTIONS UNDER ITS SUPERVISION.



## 2. The Supervised Institutions are our Customers

**The ISA's most important customers** are the supervised institutions: insurance companies, local mutual insurance associations, employee benefit funds, company pension funds, statutory pension institutions established by law, the Local Government Pensions Institution, the State Pension Fund, the Church Pension Fund, insurance intermediaries, unemployment funds, the Unemployment Insurance Fund, the Educational Fund and other corporations that the ISA supervises under the legislation in force. Other customers of the ISA include Finnish and foreign authorities, insurance industry organisations and the media responsible for the dissemination of general information about the insurance markets.

### Our registers included 805 supervised institutions

The ISA maintains statutory registers of the supervised institutions. At the end of 2005, the ISA supervised 805 institutions, 46 of which were insurance companies. The largest group subject to monitoring by us comprised insurance brokers – both brokerage companies and individual brokers – a total of 314.

The number of supervised institutions decreased by 30 year on year. 24 of these were individual brokers while the rest of the decrease was attributable to mergers and insurance portfolio transfers.

### Number of Supervised Institutions (Registered by ISA)

| Group Subject to Supervision   | 2005       | 2004       | 2003       | Change 1999-2005 |
|--|------------|------------|------------|------------------|
| Life insurance companies *)  | 14         | 15         | 15         | -1               |
| Non-life insurance companies *)  | 25         | 26         | 29         | -9               |
| Employment pension insurance companies   | 7          | 7          | 7          | 1                |
| Company pension funds *)   | 99         | 103        | 110        | -123             |
| Industry-wide pension funds *)   | 14         | 17         | 17         | -6               |
| Employee sickness and other employee benefit funds *)  | 165        | 162        | 166        | -15              |
| Pension institutions established by law  | 2          | 2          | 3          | -2               |
| Local Government Pension Institution, State Pension Fund, Church Pension Fund                      | 3          | 3          | 3          | 3                |
| Local mutual insurance associations  | 96         | 98         | 105        | -22              |
| Vakuutusmeklariyhdistös ja itsen. elinkeinonharj.  | 76         | 69         | 67         | 40               |
| Insurance brokers  | 238        | 262        | 260        | 86               |
| Unemployment funds   | 37         | 40         | 42         | 37               |
| Unemployment Insurance Fund and Educational Fund   | 2          | 2          | 2          | 2                |
| Other supervised institutions  | 7          | 8          | 9          | 1                |
| Foreign EEA insurance companies' representative offices  | 20         | 21         | 20         | 8                |
| <b>Grand total</b>   | <b>805</b> | <b>835</b> | <b>855</b> | <b>0</b>         |
| Foreign EEA insurances companies' notifications based on the freedom to provide insurance services | 453        | 415        | 375        | 186              |
| *) The above figures include institutions in liquidation as follows:                               |            |            |            |                  |
| Life insurance companies   | 1          | 1          | 1          | 1                |
| Non-life insurance companies   |            |            | 1          | 0                |
| Company pension funds  | 15         | 11         | 17         | 15               |
| Industry-wide pension funds  | 2          | 4          | 2          | 2                |
| Employee sickness and other employee benefit funds   | 8          | 7          | 10         | 8                |

### 3. The Impact of Favourable Economic Development on the Insurance Industry

**The supervised institutions' solvency** was generally high in 2005. This was clearly attributable to the favourable development in the value of equity investments in particular, but also of bonds. In non-life insurance, the increased profitability of the insurance business was also reflected in improved solvency levels, the present insurance technical profitability of non-life insurers being rather high. The share of equity investments in the investment portfolios of employee pension insurers operating under the Employees' Pensions Act increased in 2005, due to which their capital requirements also increased. The ratio of insurance companies' and company and industry-wide pension funds' aggregate solvency margins to the minimum amount developed as follows:

#### Insurance companies' solvency margins in relation to the minimum amount at the year end

|                             | 2002   | 2003   | 2004  | 2005 *)   |
|-----------------------------|--------|--------|-------|-----------|
| Property & Casualty         |        |        |       |           |
| Insurance Companies         | 420 %  | 406 %  | 350 % | 389 %     |
| Life Insurance Companies    | 309 %  | 308 %  | 332 % | 422 %     |
| Employment Pension          |        |        |       |           |
| Insurance Companies         | 306 %  | 324 %  | 352 % | 366 % **) |
| Industry-wide Pension Funds | 1031 % | 997 %  | 914 % | 838 % **) |
| Company-wide Pension Funds  | 1199 % | 1117 % | 992 % | 981 % **) |

\*) Projection

\*\*) The minimum solvency margin requirement for employee pension insurance companies is 2/3 of the solvency limit and for company and industry-wide pension funds operating under the Employees' Pensions Act 1/3 of the solvency limit.

**The ISA publishes a quarterly review on the insurance companies' solvency status and a semi-annual review on the solvency of company and industry-wide pension funds operating under the Employees' Pensions Act.**

THE IMPROVED PROFITABILITY  
OF INVESTMENT MARKETS  
AND INSURANCE OPERATIONS  
STRENGTHENED THE SUPERVISED  
INSTITUTIONS' SOLVENCY










## B. OUR ACHIEVEMENTS IN 2005



RELIANCE ON SKILLED EMPLOYEES,  
MODERN INFORMATION SYSTEMS,  
EFFICIENT SUPERVISION PROCESSES  
AND WELL-INTEGRATED CO-OPERATION  
WITH OTHER SUPERVISORS ARE  
THE PREREQUISITES FOR SUCCESSFUL  
SUPERVISION.

2005

## 1. Prudential Supervision

### **Supervision of finances and solvency was performed in line with confirmed supervisory plans**

**Most supervisory activities** on insurance companies were carried out according to plan while certain changes were made to planned supervisory activities due to the transfer of supervisory responsibilities between the financial supervisors. The insurance companies' inspection groups performed a new type of risk assessment of supervised institutions based on their financial statements on a pilot basis, but did not yet achieve a sufficiently consistent procedure in this field. The groups will continue to develop the related reporting model and standardise the risk assessment procedure in 2006. A Supervisor's Handbook was prepared for the supervision of real estate investment activities and the outsourcing of operations carried out by supervised institutions.

Supervisory co-operation between Nordic authorities targeting insurance and financial groups was carried out, chiefly according to plan. The Nordic supervisory authorities held a total of 17 supervisory meetings as well as several smaller meetings, and together prepared risk evaluations of the three insurance and financial groups operating across the Nordic countries.

The Investment Unit inspected the use of currency derivatives as assets covering technical provisions as well as the handling of hedge and property funds and certain unsecured credits in seven employment pension and life insurance companies' solvency calculations. This related to the supervision of compliance to the ISA's new rules and regulations concerning solvency and assets covering technical provisions, to which the said companies had mainly adhered well.

In the supervision of investment operations, the ISA developed computerised analyses which it was already able to implement to a certain degree in its supervisory activities.

**The ISA made** a total of 25 inspection or audit visits to seven company and industry-wide pension funds operating under the Employees' Pensions Act, the aim being to visit each of these institutions at least once every three years. The ISA did not quite achieve this goal in 2005 but has all the prerequisites to achieve it in 2006. The ISA's financial inspectors made joint inspection visits to company and industry-wide pension funds in co-operation with investment experts, legal counsels or actuaries in accordance with the action plan, targeting the inspection at one of these areas.

Company and industry-wide pension funds adapted their rules and voluntary pension liability calculations to reflect the amendments in employment pension legislation affecting pension benefits. This change decreased the additional pension liabilities of almost all pension institutions granting additional pensions, thus releasing assets covering the said provisions. The ISA emphasised the securing of beneficiaries' interests in connection with the change. In this situation, the ISA amended its regulation on company and industry-wide pension funds' calculation basis, improving the said institutions' possibilities to prepare for payment of future index increases in line with the level determined in their rules by transferring released funds to the index increase provision. Furthermore, the ISA specified its requirements on information to be disclosed in connection with closing of the accounts.

**The ISA inspected** unemployment funds' finances on the basis of the accounting records received, the benefit payment data contained in the register of



THE ISA'S CRITICAL  
SUCCESS FACTOR NUMBER 1:  
“THE SUPERVISED INSTITUTIONS HAVE  
SUFFICIENT SOLVENCY AND OTHER  
RESOURCES NECESSARY TO OPERATING  
IN THE INSURANCE BUSINESS.”

beneficiaries, and inspection visits made to the funds wherever necessary. In 2005, we made inspection or audit visits to 14 unemployment funds and continued to analyse the need for regulations on the investment operations of unemployment funds, the Unemployment Insurance Fund and the Support Fund. In November 2005, we confirmed the unemployment funds' membership fees for 2006.

In the administrative supervision of unemployment funds the ISA paid attention to their independent administrative practices and continued to carry out special investigations into the service agreements between unemployment funds and trade unions.

#### **Supervision of IFRS-compliant financial statements**

The Finnish Financial Supervision Authority (FIN-FSA) is responsible for the supervision of listed companies. In 2005, the ISA and the FIN-FSA joined forces to inspect the IFRS-compliant opening balance sheets of those insurance company subsidiaries whose parent company is quoted on the stock exchange. Furthermore, the ISA provided expert assistance to FIN-FSA regarding the treatment of Finnish employee pension insurance in business enterprises' IFRS-compliant financial statements.

#### **Inspections of internal control in compliance with established methods**

The ISA has inspected the internal control of insurance companies and insurance company groups as of 2002 and has now inspected approximately two-thirds of large insurance companies.

Four inspections were completed in 2005 while one inspection will be finished in 2006. One of the planned inspections was cancelled due to organisational changes in the company concerned while one inspection was cancelled due to lack of resources.

In addition to an inspector specialising in internal control, two financial inspectors participated in these inspections.

The inspections were carried out in accordance with the established method specified in the ISA's Supervisor's Handbook. The supervised institutions' internal control status has normally been good or satisfactory, although we have discovered a certain polarisation based on the size of the company on the one hand and on its control culture on the other. For the first time, we also decided that a separate follow-up inspection was necessary in one case. The deficiencies discovered during the inspections were similar to those identified in previous years, relating in particular to Board work, reporting and risk management. We have been delighted to discover that the supervised institutions are developing their internal control and risk management processes.

#### **Fit and proper evaluations of insurance companies' board members and managing directors**

On the basis of the Insurance Companies Act, the ISA performed a fit and proper evaluation of each of the 53 new persons appointed as managing directors or members of the board of directors in the supervised insurance companies and pension institutions established by law.

#### **Statements related to changes in authorities' regulations**

Based on the statement requests received, the ISA's Financial Supervision department and investment experts prepared and issued 27 statements and provided expert statements in various parliamentary committees on six occasions in 2005.

#### **Preparation of unemployment funds' funding share proposals for the Ministry of Social Affairs and Health**

The ISA made a proposal on the unemployment funds' final funding shares for 2004 to the Ministry of Social Affairs in June 2005.



## 2. Conduct of Business

**The ISA's versatile supervisory work includes the supervision of procedures adopted by insurance institutions, insurance intermediaries and unemployment funds. In the following, we provide more detailed examples of the market supervision activities we performed in 2005.**

### **We investigated the marketing of insurance products**

In life insurance sales, we investigated the operations of a relatively large multi-agent organisation by requesting statements from Finnish and foreign EEA insurance companies using the said agent. We examined how the insurance companies for their part ensure the legality of the procedures of the agent organisation representing several insurance companies. In this case, the ISA made no observations, although the insurance companies' views of the liability imposed on them as a consequence of the agent's activities varied.

We intervened in one marketing campaign in which a bank did not clarify its status as an insurance company's agent to its customers.

At the end of 2005, we began to investigate distance selling by examining Finnish insurance companies' websites and requesting offer material from them. We will prepare a summary on this investigation at the end of 2006.

### **We handled written complaints addressed to the ISA**

The ISA handled 74 written complaints through a written procedure, most of which concerned the activities of insurance companies. The average handling time of written complaints was three to five months, depending on the case.

Based on the Insurance Companies Act, the ISA issued an admonition to a property and casualty

### **THE ISA'S CRITICAL**

#### **SUCCESS FACTOR NUMBER 2:**

**"THE SUPERVISED INSTITUTIONS ABIDE BY THE LAW AND GOOD INSURANCE PRACTICE IN THEIR OPERATIONS."**

insurance company that, in spite of several requests, failed to provide a clarification and a counter statement to the Traffic Accident Board. Other failures made by insurance companies were individual cases to which we simply drew the company's attention in order to prevent their future recurrence. No far-reaching conclusions could be drawn on the basis of these cases.

We handled five written complaints concerning the activities of insurance brokers, these cases also involving individual failures.

We also handled 28 written complaints concerning unemployment protection, most of which related to the unemployment funds' handling times or membership fee collection.

### **We replied to inquiries**

Towards the end of the year, we decided to concentrate the handling of insurance companies' customers' phone calls to two week days during which our expert on duty provides advice to callers who are unsatisfied with insurance companies' activities.



Interpretation of the Act on Insurance Mediation and the new registration procedure multiplied the number of telephone and e-mail inquiries to the ISA in 2005.

Finnish customers continued to contact the ISA concerning the mediation of motor TPL insurance for Russia performed by tourism-related operators that in this way illegally act as Russian insurance companies' agents in Finland. The ISA also clarified the content of the related legislation to Finnish police authorities.

#### **We issued statements to various authorities**

We issued four statements to the Parliamentary Ombudsman concerning insurance companies' operations, two statements concerning complaints related to unemployment protection, and seven statements regarding regulatory amendments affecting unemployment protection. We responded to all statement requests within the prescribed time limit.

#### **We supervised and inspected insurance brokerage companies and unemployment funds**

We inspected insurance brokers' annual reports in accordance with our action plan and contacted a few broker companies based on our observations, mainly due to the concentration of insurance policies mediated by the brokers to certain insurance companies since this may be a sign of the broker's independence being jeopardised. However, we had no actual remarks to make in these cases. Since the new Act on Insurance Mediation did not enter into force until September, the launch of an inspection round concerning compliance with the new act and the related regulations was transferred to 2006.

Our clarification requests related to insurance brokerage activities concerned, for instance, the establishment of a customer fund account and nomination of a responsible manager as well as the status of persons employed by, or otherwise linked to, the broker company.

We continued a comparative analysis of the impact of the various payment systems applied by the unemployment funds in 2002 and 2003 on the enforcement of benefits and funding shares and compiled statistical analyses of the beneficiary register. We requested clarification on handling times

from those unemployment funds whose application handling-times exceeded the average and initiated a study on grounds for the recovery of unemployment benefits that, according to the unemployment funds' statistics, resulted from a mistake on the fund's part.

We also investigated possible cases of fraud involving earnings-related unemployment allowance and found out that in approximately 220 cases the erroneous benefit payment had resulted from the abuse of unemployment benefit, in other words, the fact that the applicant had not notified the unemployment fund of income affecting his or her entitlement to benefit or its amount. The total amount of such unjustified payments was approximately EUR 1.7 million.

#### **We examined insurance terms and conditions**

In 2005, the Supreme Administrative Court issued a decision that confirmed the ISA's earlier view according to which the technical rate of interest applied to life and pension insurance cannot be changed with respect to payments already made to the insurance contract.

We investigated eight insurance products and intervened with illegal insurance condition clauses in three cases. The stipulations of the Act on Registered Partnerships had been ignored in the terms and conditions of employees' group life insurance while in the case of the terms and conditions of pension insurance the adjustment of mortality basis at the outset of the pension entitlement period was illegal.

#### **We investigated the adequacy and reasonableness of workers' compensation insurance and motor third party liability insurance premiums**

We performed an annual statistical analysis of workers' compensation insurance as well as an analysis of the premium levels of motor third party liability insurance. Based on the results of this study, we presented a bill to the Ministry of Social Affairs and Health on the adjustment of legislation concerning the equity principle applied to workers' compensation insurance premiums.



### **We performed inspections to prevent money laundering**

During the report year, our supervision aiming at preventing money laundering focused mainly on small insurance companies.

Our inspections revealed that there were still deficiencies in the insurance companies' internal instructions.

We sent 40 letters to all insurance companies and brokers on the prevention of terrorist funding as commissioned by the Ministry for Foreign Affairs.

### **Notifications related to EEA insurance companies**

The ISA maintains a register on EEA insurance companies' notifications concerning the free provision of insurance services and representative offices.

At the end of 2005, the register contained 453 notifications concerning EEA insurance companies' free provision of insurance services in Finland. 50 new companies were added to the register and 12 companies were deleted from the register during 2005. At the end of the year, there were 20 registered representative offices of EEA insurance companies in Finland.

We handled 13 approval requests concerning EEA insurance companies' portfolio transfers and nine reorganisation and liquidation procedure notifications.

### **EEA insurance intermediaries' notifications on representative offices**

Two Finnish broker companies submitted a notification on the free provision of insurance services in the EEA area while one founded a representative office in another EEA member state.

Four insurance intermediary companies registered in another EEA member state submitted a notification of establishment in Finland. The ISA has received several hundreds of notifications on the free provision of services basis although Finland's national legislation does not require such notification of the intention to begin insurance mediation activities in Finland from another EEA member state.



### 3. Participation in Legislative Projects and Provision of Regulations and Guidelines



#### **Implementation of the stipulations of the Directive on the Activities and Supervision of Institutions for Occupational Retirement Provision in Finnish legislation**

Based on its expert status, the ISA participated in a working group appointed by the Ministry of Social Affairs and Health for the said implementation and played a major role in the subsequent preparation of the related Government bill drafted by the Ministry and submitted to Parliament in October. With respect to this project, the ISA also participated in the amendment of legislation concerning employee benefit funds other than industry-wide pension funds.

#### **The overall reform of the Insurance Companies Act**

The ISA participated in the related preparatory work as a member of a working group appointed by the Ministry of Social Affairs and Health, with two persons participating in the main working group and ten in the related sub-working groups. The working groups' term was extended until 30 June 2006.

#### **A clarification of the adequacy of the minimum amount of the unemployment funds' equalisation reserve**

In 2005, the minimum amount of the unemployment funds' equalisation reserve confirmed by the ISA was 100 per cent and the maximum amount 400 per cent of the expenses on the fund's own account. The ISA and the Ministry of Social Affairs and Health together evaluated the adequacy of the equalisation reserve's minimum amount and came to the conclusion that there was no need to increase the minimum amount. The aggregate funds consisting of membership fees, state subsidies and the amount granted by the Unemployment Insurance Fund must cover the unemployment fund's liabilities.

### THE ISA'S CRITICAL SUCCESS FACTOR NUMBER 3:

“THE ISA'S OPERATIONS ARE CONSISTENT AND CO-OPERATION RUNS SMOOTHLY WITH OTHER AUTHORITIES REGULATING AND SUPERVISING THE INSURANCE AND FINANCING MARKETS.”

#### **Specification of regulations concerning unemployment funds' administration**

We performed a systematic comparison of the unemployment funds' rules with the stipulations of the Unemployment Funds Act and the existing model rules and charted the need for amendments in the said Act and model rules.

#### **Changes in regulations and guidelines concerning the various groups of supervised institutions**

We prepared several changes in the regulations and guidelines issued by the ISA. These involved the valuation of financial instruments and/or real estate held as investments at their current value in financial statements, the disclosure of financial key figures and key figures relating to insurance business, internal control and risk management, the ratio of credit default swap contracts to the value of security, and reports to be submitted to the ISA.

Furthermore, we provided the supervised institutions with instructions on preparedness for exceptional situations.

With respect to the sector-specific IAS supervision handled by us, we issued statements on the handling of statutory non-life insurance lines' assessment system and handling of the provision for a guarantee scheme in IFRS-compliant financial statements.

#### **Regulations concerning insurance mediation**

The new insurance intermediary register was implemented in the autumn alongside the entry into force of the Act on Insurance Mediation. Furthermore, the ISA issued a set of regulations and guidelines for insurance intermediaries and instructions on conditions required by general good for EEA insurance intermediaries.

We made several decisions concerning the application of the Act on Insurance Mediation in practical supervisory work. At the end of the year, we prepared a statement on the provision affecting old contracts, included in the transitional provisions of the said Act. The final statement was published in early 2006.

#### **Instructions for the application of legislation in unemployment funds, submitted to the Ministry of Social Affairs and Health for confirmation**

The Ministry of Social Affairs and Health confirmed the application instructions prepared by the ISA for training allowances, recovery claims, the processing of matters and issuing of decisions, Chapter 11 of the Unemployment Security Act, the handling of membership matters, and the entry into force of protection against unemployment.

#### **The Consumer Policy Programme 2004-2007 follow-up working group**

The ISA's representative participated in the follow-up working group related to the Finnish Government's Consumer Policy Programme. Partly related to this work, the ISA, the Finnish Financial Supervision Authority (FIN-FSA) and the Consumer Office jointly developed co-operation models in order to increase the transparency of information in the marketing of various investment and savings products. The working group began to prepare guidelines for good selling practice to ensure that the customer receives sufficient information on the features of various products. Preparation of the guidelines that will be published jointly by the ISA and FIN-FSA and the Consumer Office will continue in 2006.

## 4. International Activities: Visible Participation in EU-level Projects

### Solvency II project

The ISA continued its international activities in line with its strategy by, for example, participating in the work of the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS). The committee's main project is to prepare the Solvency II framework, a solvency reform for insurance companies.

In connection with the Solvency II project, the EU regulations on insurance companies' solvency and other supervision will be fundamentally revised. The European Commission intends to issue a proposal for a new Directive in mid-2007 and implement the new system and the related sub-regulations by 2010. The Commission has outsourced the project's technical preparatory work to the European insurance supervisors' joint body, CEIOPS.

The ISA has made major investments in the said preparatory work handled by CEIOPS, allocating six persons to the Solvency II project's various working groups (those for the solvency and technical provisions of life and non-life insurance; supervisory methods; insurance groups; and disclosure of information).

CEIOPS has now responded to all assignments which the European Commission has requested from the Committee. Overall, the ISA agrees with the proposals made by CEIOPS and has no fundamentally differing views vis-à-vis the policies outlined by the Commission and CEIOPS. Thus, we will continue to promote the project for our part

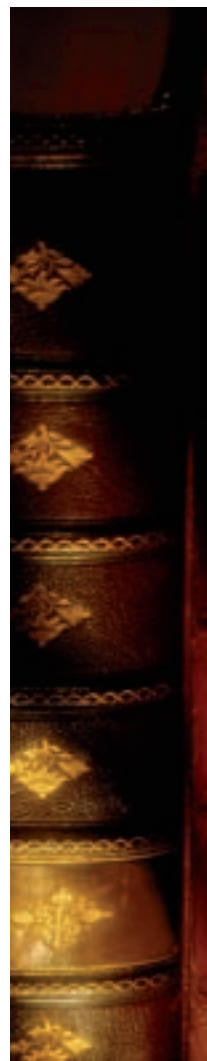
so that the new supervisory system for insurance companies is implemented in the EU according to plan. In 2005, the ISA employees' total contribution to the Solvency II working groups corresponded to approximately 2.5 man-years. In co-operation with the Finnish Financial Supervision Authority (FIN-FSA), the ISA also organised seminars on banks' and insurance companies' solvency reforms (Basel II and Solvency II, respectively) targeted at employees and members of the Boards of Directors of ISA and FIN-FSA.

### Development of international supervisory co-operation

To enhance the practical supervision of voluntary occupational pension funds and insurance intermediaries' cross-border operations, the related co-operation protocols were prepared within the CEIOPS framework in 2005. Such joint operating models are key requisites for efficient supervisory co-operation. Since the determination of efficient practices is challenging due to the differences in national supervisory structures and the regulation of the supervised institutions' operations in the various EU member states, significant resources had to be allocated to this work.

The ISA's representative also participated in the work of the CEIOPS Financial Stability Committee that evaluated the stability of insurance markets and prepared two related reports in 2005.

The ISA's representatives participated in the work of two permanent working groups in the field of Nordic unemployment protection systems. We also participated in border-area-related conferences organised by Finnish and Swedish unemployment funds and employment authorities to consider issues related to the unemployment security of people working across borders or moving to another country.





## 5. Active Research and Co-operation with the Academic Community



**An equity investment model** developed by the ISA's Research Unit was applied to risk assessment in a development project related to the regulation of the Finnish employment pension system. Furthermore, in co-operation with the ISA's supervisory experts, our Research Director wrote an article on the evaluation of insurance companies' own models from the ISA's viewpoint. The article, which will be presented at the International Actuarial Organisation's conference in the summer of 2006, also deals partly with capital allocation modelling. Moreover, a junior researcher developed a yield curve model for the ISA's internal use.

The ISA's Research Director gave a series of lectures on insurance and investment risk management at the Helsinki School of Economics and continued to arrange a joint seminar with the University of Helsinki.

A junior researcher in the ISA wrote two research articles on expected inflation rates while ISA's Research Director wrote two articles on financial alliances in co-operation with the researchers of the Helsinki School of Economics.

The ISA's Research Director participated in the development of actuarial training as Finland's representative in the Education Committee of Group Consultatif, a co-operation body of European actuaries. The several-year project for the establishment of pan-European actuarial degree requirements and their implementation in Finland was finalised in 2005.

## 6. More Emphasis on Communications: Statistics, Reviews, Studies, Analyses, Statements, Presentations, Training Events and Corporate Communications



### **Annual statistics**

We issued statistics on the operations of insurance companies and insurance brokers as well as on unemployment funds' operations, benefit expenditure and finances for 2004. Furthermore, the ISA and the Social Insurance Institution of Finland published a statistical summary of unemployment benefits on a monthly basis. The Social Insurance Institution issues an annual publication on unemployment benefit expenditure for which we provide information on the benefits paid by the unemployment funds.

We also produce statistical reports on the basis of the unemployment beneficiary register for the unemployment funds' supervisory purposes and for external parties, such as Statistics Finland and the Ministry of Social Affairs and Health.

### **Insurance and pension institutions solvency data**

We published quarterly solvency reviews and accelerated the review preparation schedule throughout the year so that the last review for the year was published 12 working days after the data submission deadline.

### **Investigation of workers' compensation insurance and motor third party liability insurance premiums**

An annual statistical study on workers' compensation insurance was published in the form of a press release in September 2005.

In September, we published a press release on our investigation of motor third party liability insurance premium levels that was based on information collected during 2004.



### Statistical publication strategy

The Board of Directors approved the ISA's statistical strategy for 2005–2008 in April. The purpose of our statistical activities is to produce statistics that support the goals of insurance supervision. On the other hand, since the ISA forms part of the national statistical service, we produce statistics and statistical material on the insurance industry and its development as required by the said service. According to our statistical strategy, we must compile reliable statistics that are as up-to-date as possible, use clear statistical concepts and ensure the permanent availability of annual statistics. Insurance institution-specific statistics must include all organisations that belong to the group of insurance institutions in question.

The ISA publishes statistics as deemed necessary in order to provide efficient support for the goals of insurance supervision by ensuring the transparency of the insurance markets and the realisation of market discipline while providing sufficient information on the insurance industry on a continuous basis. In the assessment of the adequacy of our statistical publications, we take account of the needs of our various stakeholder groups, including insurance institutions' customers, researchers, the media and other interest groups.

### Presentation of own research results

An article written by the ISA's Research Director in co-operation with the ISA's supervisory experts on the evaluation of insurance companies' own models will be presented in the International Actuarial Organisation's conference in the summer of 2006. A study prepared by the Research Director in co-operation with the researchers of the Helsinki School of Economics, A customer view on the most preferred alliance structure between banks and insurance companies, was published in the publication series of the Helsinki School of Economics. In the near future, a description of the ISA's own research activities will be posted on our website.

### Provision of training for supervised institutions

Officials and investment experts from the ISA's Financial Supervision Department gave a total of 18 presentations in 11 events targeted to the supervised institutions.

The representatives of the ISA also gave lectures in 15 training events organised by the Federation of Unemployment Funds in Finland, attracting approximately 1,500 participants, in addition to which members of the Financial Supervision Department gave lectures in events arranged by five unemployment funds or other stakeholder groups.

Our representative participated as an expert in the Finnish Insurance Institute's working group that plans e-learning material for insurance agent training.

### Communications

The ISA decided to increase investment in communications and communications development. The purpose of internal communications is to enhance team spirit within the ISA while ensuring that the employees are aware of the supervisory guidelines and operating models. The purpose of external communications is to increase general awareness of the regulations applied to supervised institutions and their development and the ISA's supervisory activities, provide information on the status and development of the insurance markets as well as comments on topical issues within them. The ISA's new intranet was implemented at the beginning of 2006 after which planning for the renovation of the ISA's website began. The ISA has had a full-time information officer as of the beginning of 2006.

In the spring of 2005 we participated in a survey that charted the reputation of organisations subordinate to the Ministry of Social Affairs and Health among their stakeholder groups. While the survey results indicated that we should continue to develop our operations and administration, the results also demonstrated that we have not yet managed to communicate a fully accurate picture of our goals and operations to our stakeholders.

## 7. The Challenges Posed by Staff Reform and Well-being

### **Our competitiveness as an employer**

On 14 February 2005, the ISA tabled a new pay system based on competence classifications and personal performance. However, the parties failed to achieve an agreement in the related negotiations by the set time limit, 31 March 2005. Last-minute negotiations continued until the turn of the year, but the actual conclusion of an agreement was transferred to 2006.

On 31 December 2005, we employed 73 people, 68 of them on a permanent basis. The number of actual man-years was 67.6. Two persons (deputy officials) resigned while three were recruited during the report year. This represented a staff turnover of 5.6 per cent for those joining and 2.8 per cent for those leaving.

### **Ensuring of our competence**

The ISA has provided staff training both through centralised training arrangements and based on personal development needs. We organised centralised in-house training in internal communications covering the interaction arena, demanding customer contact situations, and agreements and practices related to co-operation and the distribution of work. The training methods applied included group training, interviews and work-counselling. The ISA also provides training groups in various proficiency levels in the Swedish and English languages. The ISA staff used approximately 524 training days (2 man-years) to participate in training in Finland or abroad.

### **The challenges of general well-being at work**

The job satisfaction survey performed in the autumn of 2005 indicated development needs in the field of personal interaction. The survey charted, among other things, staff satisfaction with executive and managerial work, job content and job-related challenges, payment, support of personal growth, working environment and conditions, co-operation, information flow and employer image as well as matters related to health, general well-being and bullying in the workplace. The survey results indicated that we should pay more attention to information flow, pay systems, the Authority's management and the general distribution of work within the organisation.

One of the goals of the organisational change implemented as of 1 February 2006 is to improve the prerequisites of working community development, clarify responsibilities and authority and promote efficient co-operation. At the same time, we will place a greater emphasis on managerial work, flexible and efficient handling of matters and clear working processes. We are presently planning a long-term development process for the working community in co-operation with our occupational healthcare services as well as staff representatives who participate closely in the related planning and implementation work.

We used EUR 290 per man-year for the promotion of ability to work and job satisfaction and EUR 450 per man-year to buy supplies recommended by an occupational therapist to improve the occupational ergonomics of our staff. We recorded a total of 15.6 days of sick leave per man-year and used EUR 380 per man-year for occupational healthcare services.

THE ISA'S CRITICAL  
SUCCESS FACTOR NUMBER 4:  
"THE ISA HAS A SKILLED  
AND MOTIVATED STAFF."







## C. STATISTICAL OVERVIEW: OUR KEY PERFORMANCE INDICATORS FOR 2005

THE ISA'S CRITICAL SUCCESS FACTOR NUMBER 5:  
"THE ISA OPERATES IN AN ECONOMICAL  
AND EFFICIENT MANNER."

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### FINANCIAL STATEMENTS, NOTES AND ANALYSES

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2005



## 1. Income and Expenses Account

|  | 1 Jan. 2005–31 Dec. 2005 |                    | 1 Jan. 2004–31 Dec. 2004 |                    |
|--|--------------------------|--------------------|--------------------------|--------------------|
| <b>OPERATING INCOME</b>                      |                          |                    |                          |                    |
| Income from fee-charging operations          | 5,436,699.42             |                    | 5,120,778.91             |                    |
| Other income from operations                 |                          | 5,436,699.42       | 90.30                    | 5,120,869.21       |
| <b>OPERATING EXPENSES</b>                    |                          |                    |                          |                    |
| Materials, supplies and goods                |                          |                    |                          |                    |
| Purchases during the accounting period       | -83,011.55               |                    | -52,686.48               |                    |
| Personnel costs                              | -3,826,499.12            |                    | -3,719,787.40            |                    |
| Rents  | -624,153.09              |                    | -583,400.75              |                    |
| Purchases services                           | -668,802.07              |                    | -591,079.09              |                    |
| Other expenses                               | -205,583.65              |                    | -130,044.28              |                    |
| Depreciation                                 | -109,404.43              |                    | -134,871.62              |                    |
| Internal expenses                            | -18,751.65               | -5,536,205.56      | -18,356.83               | -5,230,226.45      |
| <b>SURPLUS/DEFICT I</b>                      | <b>-99,506.14</b>        |                    | <b>-109,357.24</b>       |                    |
| <b>FINANCIAL INCOME AND EXPENSES</b>         |                          |                    |                          |                    |
| Financial income                             | 493.81                   |                    | 615.80                   |                    |
| Financial expenses                           | -437.94                  | 55.87              | -110.43                  | 505.37             |
| <b>SURPLUS/DEFICT II</b>                     |                          | <b>-99,450.27</b>  |                          | <b>-108,851.87</b> |
| <b>SURPLUS/DEFICT III</b>                    |                          | <b>-99,450.27</b>  |                          | <b>-108,851.87</b> |
| <b>INCOME FROM TAXES AND OBLIGATORY FEES</b> |                          |                    |                          |                    |
| Value added taxes levied                     | 934.54                   |                    | 721.62                   |                    |
| Value added taxes paid                       | -294,866.92              | -293,932.38        | -288,885.44              | -288,163.82        |
| <b>DEFICT FROM THE ACCOUNTING PERIOD</b>     |                          | <b>-393,382.65</b> |                          | <b>-397,015.69</b> |

## 2. Supervision Fee Income (EUR '000)

| Group of Supervised Institutions  | SUPERVISION<br>FEE INVOICING<br>in total | Deductions:<br>Allocated<br>expenses<br>in total | Income from<br>charges for<br>performances*)<br>based on the Act<br>on Criteria for<br>Charges Payable<br>to the State<br>+ other income<br>./. removal<br>of receivables | INVOICING SURPLUS (+)<br>/ DEFICIT (-)<br>Financial statements<br>2005 | Supervision<br>fee income for<br>2005 in total<br>(= expenses<br>./. income from<br>charges for<br>performances<br>based on the Act<br>on Criteria for<br>Charges Payable<br>to the State) |
|---|--|--|---|--|--|
| 1. Life insurance companies   | 1,041,230.76                             | 1,019,265.15                                     | 8,948.97  | 30,914.58  | 1,010,316.18   |
| 2. Non-life insurance companies   | 1,217,401.67                             | 1,008,174.30                                     | 20,225.04   | 229,452.41   | 987,949.26   |
| 3. Employment pension<br>insurance companies  | 1,366,907.03                             | 1,271,543.59                                     | 5,337.80  | 100,701.24   | 1,266,205.79   |
| 4. Company and industry-wide<br>pension funds   | 482,802.72                               | 625,217.09                                       | 84,215.75   | -58,198.62   | 541,001.34   |
| 5. Other employee benefit funds   | 256,559.78                               | 160,350.35                                       | 21,589.00   | 117,798.43   | 138,761.35   |
| 6. Pension institutions<br>established by law   | 42,417.57                                | 35,618.29  | 350.00  | 7,149.28   | 35,268.29  |
| 6a. Local Government Pension Institution,<br>State Pension Fund,<br>Church Pension Fund | 138,320.88                               | 103,865.29                                       | 0.00  | 34,455.59  | 103,865.29   |
| 7. The Finnish Centre for Pensions  | 18,916.99                                | 14,110.05  | 703.02  | 5,509.96   | 13,407.03  |
| 8. Local mutual insurance<br>associations   | 359,471.81                               | 148,643.32                                       | 13,070.00   | 223,898.49   | 135,573.32   |
| 9. Insurance brokers  | -26,977.63                               | 171,394.68                                       | 22,391.14   | -175,981.17  | 149,003.54   |
| 9a. Unemployment funds  | 996,753.19                               | 817,172.47                                       | 20,007.08   | 199,587.80   | 797,165.39   |
| 9b. Unemployment Insurance Fund<br>and Educational Fund                                 | 12,965.89                                | 24,952.91  | 135.80  | -11,851.22   | 24,817.11  |
| 10. Other supervised institutions   | 20,373.32                                | 30,043.58  | 2,866.66  | -6,803.60  | 27,176.92  |
| <b>Total</b>  | <b>5,927,143.98</b>                      | <b>5,430,351.07</b>                              | <b>199,840.26</b>   | <b>696,633.17</b>  | <b>5,230,510.81</b>  |

\*) Retained earnings as deduction of joint expenses

### 3. Balance Sheet

|   | 31 Dec. 2005     |                   | 31 Dec. 2004     |                   |
|---|------------------|-------------------|------------------|-------------------|
| ASSETS  |                  |                   |                  |                   |
| FIXED ASSETS AND OTHER NON-CURRENT INVESTMENTS          |                  |                   |                  |                   |
| INTANGIBLE ASSETS                                       |                  |                   |                  |                   |
| Intangible rights                                       | 47,792.33        |                   | 63,673.13        |                   |
| Other capitalised expenditure                           | <u>690.56</u>    | 48,482.89         | <u>47,965.27</u> | 111,638.40        |
| TANGIBLE ASSETS   |                  |                   |                  |                   |
| Machinery and equipment                                 | 19,688.62        |                   | 37,691.63        |                   |
| Furniture and fixtures                                  | <u>32,545.39</u> | <u>52,234.01</u>  | <u>44,374.19</u> | <u>82,065.82</u>  |
| TOTAL FIXED ASSETS<br>AND OTHER NON-CURRENT INVESTMENTS |                  | 100,716.90        |                  | 193,704.22        |
| CURRENT ASSETS  |                  |                   |                  |                   |
| CURRENT RECEIVABLES                                     |                  |                   |                  |                   |
| Accounts receivable                                     | 12,510.62        |                   | 26,245.96        |                   |
| Prepaid expenses and accrued income                     | 10,804.38        |                   | 16,339.94        |                   |
| Other current receivables                               | <u>89.51</u>     | <u>23,404.51</u>  | <u>264.88</u>    | <u>42,850.78</u>  |
| TOTAL CURRENT ASSETS                                    |                  | 23,404.51         |                  | 42,850.78         |
| TOTAL ASSETS  |                  | <u>124,121.41</u> |                  | <u>236,555.00</u> |

|   | 31.12.2005         |                     | 31.12.2004         |                     |
|---|--------------------|---------------------|--------------------|---------------------|
| LIABILITIES                                     |                    |                     |                    |                     |
| EQUITY  |                    |                     |                    |                     |
| STATE CAPITAL                                   |                    |                     |                    |                     |
| Change in capital from previous financial years | -999,169.65        |                     | -952,434.39        |                     |
| Transfers of capital                            | 30,707.97          |                     | 350,280.43         |                     |
| Deficit for the financial year                  | <u>-393,382.65</u> | -1,361,844.33       | <u>-397,015.69</u> | -999,169.65         |
| CREDITORS                                       |                    |                     |                    |                     |
| CURRENT   |                    |                     |                    |                     |
| Accounts payable                                | 85,735.16          |                     | 101,045.00         |                     |
| Transactions between accounting offices         | 89,958.84          |                     | 90,046.29          |                     |
| Items to be forwarded for payment               | 63,205.35          |                     | 60,445.51          |                     |
| Accrued expenses and deferred income            | 549,922.89         |                     | 546,084.27         |                     |
| Other creditors                                 | <u>697,143.50</u>  | 1,485,965.74        | <u>438,103.58</u>  | 1,235,724.65        |
| TOTAL CREDITORS                                 |                    | <u>1,485,965.74</u> |                    | <u>1,235,724.65</u> |
| TOTAL LIABILITIES                               |                    | 124,121.41          |                    | 236,555.00          |

## 4. Cost-effectiveness Calculation (EUR '000)

|   | 2002<br>Financial<br>statements | 2003<br>Financial<br>statements | 2004<br>Financial<br>statements | 2005<br>Financial<br>statements | 2005<br>Budgeted<br>(Performance<br>Agreement) |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|--|
| <b>INCOME</b>   |                                 |                                 |                                 |                                 |  |
| Income from fee-charging operations                                     |                                 |                                 |                                 |                                 |  |
| • Sales proceeds from fee-charging operations <sup>1), 2)</sup>         | 4,320                           | 4,531                           | 5,121                           | 5,580                           | 6,100  |
| • Other income from fee-charging operations                             | 0                               | 0                               | 1                               | 0                               |  |
| <b>Income in total</b>  | <b>4,320</b>                    | <b>4,531</b>                    | <b>5,121</b>                    | <b>5,580</b>                    | <b>6,100</b>                                   |
| <b>EXPENSES</b>   |                                 |                                 |                                 |                                 |  |
| Separate costs related to fee-charging operations                       |                                 |                                 |                                 |                                 |  |
| • Materials, supplies and goods   | 81                              | 60                              | 53                              | 83                              | 105  |
| • Personnel costs   | 3,001                           | 3,361                           | 3,720                           | 3,826                           | 4,155  |
| • Rents   | 579                             | 522                             | 583                             | 624                             | 685  |
| • Purchased services <sup>3)</sup>                                      | 443                             | 486                             | 591                             | 669                             | 760  |
| • Other separate costs  | 93                              | 164                             | 107                             | 206                             | 205  |
| <b>Separate costs in total</b>  | <b>4,268</b>                    | <b>4,536</b>                    | <b>5,077</b>                    | <b>5,408</b>                    | <b>5,910</b>                                   |
| <b>SURPLUS/DEFICIT</b>  | <b>52</b>                       | <b>-5</b>                       | <b>44</b>                       | <b>29</b>                       | <b>190</b>                                     |
| <b>Fee-charging operations' share of joint costs</b>                    |                                 |                                 |                                 |                                 |  |
| • Support functions' costs  |                                 |                                 |                                 |                                 |  |
| • Depreciation  | 133                             | 107                             | 135                             | 109                             | 170  |
| • Interest  | 23                              | 24                              | 20                              | 16                              | 30   |
| • Co-operation payments<br>to State agencies and institutions           | 17                              | 20                              | 18                              | 19                              | 30   |
| • Other joint costs   |                                 |                                 |                                 |                                 |  |
| <b>Share of joint costs in total</b>                                    | <b>174</b>                      | <b>151</b>                      | <b>173</b>                      | <b>144</b>                      | <b>230</b>                                     |
| <b>Expenses in total</b>  | <b>4,441</b>                    | <b>4,686</b>                    | <b>5,250</b>                    | <b>5,553</b>                    | <b>6,140</b>                                   |
| <b>Surplus (+) / Deficit (-)</b>  | <b>-121</b>                     | <b>-155</b>                     | <b>-129</b>                     | <b>-115</b>                     | <b>-40</b>                                     |
| <b>Cost effectiveness, %</b>  | <b>97.3</b>                     | <b>96.7</b>                     | <b>97.5</b>                     | <b>97.9</b>                     | <b>99.3</b>                                    |
| <b>Investment expenses</b>  | <b>96</b>                       | <b>25</b>                       | <b>120</b>                      | <b>18</b>                       | <b>160</b>                                     |
| <b>Deducted items:</b>  |                                 |                                 |                                 |                                 |  |
| • Depreciation  | -133                            | -107                            | -135                            | -109                            | 170  |
| • Interest  | -23                             | -24                             | -20                             | -16                             | -30  |
| • Change in holiday pay liabilities + additional costs                  | -59                             | -47                             | -94                             | -6                              |  |
| • Deduction of sales losses   | -2                              | 0                               |                                 | -2                              |  |
| • Rehabilitation based<br>on State Employees Pensions Act <sup>3)</sup> |                                 | -2                              |                                 |                                 |  |
| <b>Deducted items in total</b>  | <b>-217</b>                     | <b>-180</b>                     | <b>-249</b>                     | <b>-134</b>                     | <b>-200</b>                                    |
| <b>Total gross expenditure</b>  | <b>4,320</b>                    | <b>4,531</b>                    | <b>5,121</b>                    | <b>5,437</b>                    | <b>6,100</b>                                   |
| <b>Surplus (+) / Deficit (-)</b>  | <b>0</b>                        | <b>0</b>                        | <b>0</b>                        | <b>0</b>                        | <b>0</b>                                       |
| <b>Cost effectiveness, %</b>  | <b>100.0</b>                    | <b>100.0</b>                    | <b>100.0</b>                    | <b>100.0</b>                    | <b>100.0</b>                                   |

<sup>1)</sup> Act on the Financing of the Insurance Supervisory Authority (479/1944).

Decisions of the Ministry of Social Affairs and Health on the bases of the ISA's supervision fee charged to supervised institutions.

Insurance Supervisory Authority's debit decisions

<sup>2)</sup> Act on Criteria for Charges Payable to the State (150/1992).

Decree of the Ministry of Social Affairs and Health 1290/2001 and Insurance Supervisory Authority's Service Charges as of 1 January 2002

<sup>3)</sup> Includes expenses on rehabilitation based on State Employees Pensions Act (sub-section 28.80.24) as follows: year 2003: EUR 2,018

## 5. Decisions and Permits based on the Act on Criteria for Charges Payable to the State by Type of Performance and Group of Supervised Institutions

|  | 2005       | 2004       | 2003       | 2002       | 2001       |
|--|------------|------------|------------|------------|------------|
| <b>Decisions on confirming or amending rules and regulations</b>             |            |            |            |            |            |
| Company and industry-wide pension funds                                      | 61         | 91         | 79         | 53         | 49         |
| Other employee benefit funds   | 74         | 105        | 103        | 98         | 126        |
| Unemployment funds   | 14         | 9          | 22         | 12         | 11         |
| <b>Total</b>   | <b>149</b> | <b>205</b> | <b>204</b> | <b>163</b> | <b>186</b> |
| <b>Decisions on the confirmation or amendment of articles of association</b> |            |            |            |            |            |
| Life insurance companies   | 4          | 2          | 3          | 2          | 13         |
| Non-life insurance companies   | 4          | 6          | 3          | 5          | 30         |
| Employment pension insurance companies                                       | 4          | 1          | 1          | 1          | 4          |
| Company and industry-wide pension funds                                      |            |            |            |            | 1          |
| Pension institutions established by law                                      |            |            | 1          |            |            |
| Local mutual insurance associations  | 1          | 5          | 8          | 15         | 108        |
| <b>Total</b>   | <b>13</b>  | <b>14</b>  | <b>16</b>  | <b>23</b>  | <b>156</b> |
| <b>Insurance intermediaries' registration applications</b>                   |            |            |            |            |            |
| <b>Insurance intermediaries</b>  | <b>83</b>  | <b>62</b>  | <b>55</b>  | <b>90</b>  | <b>85</b>  |
| <b>Decisions on the confirmation of insurance-technical bases</b>            |            |            |            |            |            |
| Life insurance companies   |            |            |            |            | 1          |
| Non-life insurance companies   | 11         | 12         | 11         | 21         | 12         |
| Employment pension insurance companies                                       |            |            |            |            | 0          |
| Company and industry-wide pension funds                                      |            |            | 2          | 5          | 33         |
| Other employee benefit funds   |            |            | 4          | 3          |            |
| Local mutual insurance associations  | 21         | 13         | 19         | 27         | 7          |
| Other supervised institutions  |            |            |            |            |            |
| <b>Total</b>   | <b>32</b>  | <b>25</b>  | <b>36</b>  | <b>56</b>  | <b>53</b>  |
| <b>Decisions on the confirmation of membership fees</b>                      |            |            |            |            |            |
| Unemployment funds   | 37         | 40         | 43         | 43         | 44         |
| Other supervised institutions  | 1          | 1          |            |            |            |
| <b>Total</b>   | <b>38</b>  | <b>41</b>  | <b>43</b>  | <b>43</b>  | <b>44</b>  |



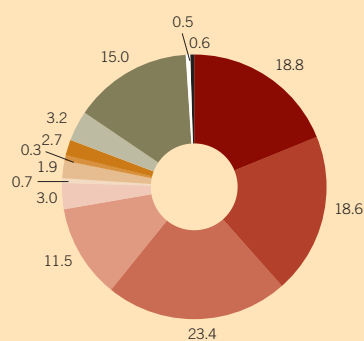
## 5. Decisions and Permits based on the Act on Criteria for Charges Payable to the State by Type of Performance and Group of Supervised Institutions

|   | 2005       | 2004       | 2003       | 2002       | 2001       |
|---|------------|------------|------------|------------|------------|
| <b>Decisions on mergers, demergers, changes in company form, transfer of insurance portfolio or insurance operations, transfer of liability and refund of the surplus value in a pension foundation</b> |            |            |            |            |            |
| Life insurance companies  | 2          | 2          | 2          |            |            |
| Non-life insurance companies  | 4          | 5          | 6          | 4          | 6          |
| Employment pension insurance companies  |            | 3          |            | 1          | 2          |
| Company and industry-wide pension funds   | 37         | 24         | 35         | 23         | 28         |
| Other employee benefit funds  |            | 2          |            |            |            |
| Pension institutions established by law   |            |            | 1          |            |            |
| Local mutual insurance associations   | 2          | 5          | 8          | 2          | 1          |
| Unemployment funds  | 1          | 2          |            | 1          |            |
| <b>Total</b>  | <b>46</b>  | <b>43</b>  | <b>52</b>  | <b>31</b>  | <b>37</b>  |
| <b>Other permits and decisions on request</b>   |            |            |            |            |            |
| Life insurance companies  | 5          | 3          | 12         | 5          | 6          |
| Non-life insurance companies  | 6          | 8          | 8          | 13         | 16         |
| Employment pension insurance companies  | 6          | 9          | 23         | 8          | 3          |
| Company and industry-wide pension funds   | 10         | 2          | 30         | 22         | 21         |
| Other employee benefit funds  |            | 2          |            |            | 3          |
| Pension institutions established by law and the Finnish Centre for Pensions   |            | 2          | 2          |            | 1          |
| Local mutual insurance associations   |            | 4          |            | 1          |            |
| Insurance intermediaries  |            | 2          | 1          | 1          | 3          |
| Other supervised institutions and others  | 8          | 5          | 17         | 5          | 2          |
| <b>Total</b>  | <b>35</b>  | <b>37</b>  | <b>93</b>  | <b>55</b>  | <b>55</b>  |
| <b>All in total</b>   |            |            |            |            |            |
| Life insurance companies  | 11         | 7          | 17         | 7          | 20         |
| Non-life insurance companies  | 25         | 31         | 28         | 43         | 64         |
| Employment pension insurance companies  | 10         | 13         | 24         | 10         | 9          |
| Company and industry-wide pension funds   | 108        | 117        | 146        | 103        | 132        |
| Other employee benefit funds  | 74         | 109        | 107        | 101        | 129        |
| Pension institutions established by law and the Finnish Centre for Pensions   | 0          | 2          | 4          | 0          | 1          |
| Local mutual insurance associations   | 24         | 27         | 35         | 45         | 116        |
| Insurance intermediaries  | 83         | 64         | 56         | 91         | 88         |
| Unemployment funds, the Unemployment Insurance Fund and the Educational Fund  | 52         | 51         | 65         | 56         | 55         |
| Other supervised institutions and others  | 9          | 6          | 17         | 5          | 2          |
| <b>All in total</b>   | <b>396</b> | <b>427</b> | <b>499</b> | <b>461</b> | <b>616</b> |

## 6. Allocation of Expenses

|   | Direct<br>staff costs | Other<br>expenses   | Total<br>expenses   |
|---|-----------------------|---------------------|---------------------|
| 1. Life insurance companies   | 649,756.49            | 369,508.66          | 1,019,265.15        |
| 2. Non-life insurance companies   | 633,802.71            | 374,371.59          | 1,008,174.30        |
| 3. Employment pension<br>insurance companies  | 581,592.16            | 689,951.43          | 1,271,543.59        |
| 4. Company and industry-wide<br>pension funds   | 426,347.60            | 198,869.49          | 625,217.09          |
| 5. Other employee benefit funds   | 118,472.86            | 41,877.49           | 160,350.35          |
| 6. Pension institutions established by law  | 22,445.06             | 13,173.23           | 35,618.29           |
| 6a. Local Government Pension Institution,<br>State Pension Fund,<br>Church Pension Fund | 80,518.60             | 23,346.69           | 103,865.29          |
| 7. The Finnish Centre for Pensions  | 4,709.25              | 9,400.80            | 14,110.05           |
| 8. Local mutual insurance associations  | 105,520.03            | 43,123.29           | 148,643.32          |
| 9. Insurance intermediaries   | 121,665.70            | 49,728.98           | 171,394.68          |
| 9a. Unemployment funds  | 580,405.39            | 236,767.08          | 817,172.47          |
| 9b. Unemployment Insurance Fund<br>and Educational Fund                                 | 18,571.48             | 6,381.43            | 24,952.91           |
| 10. Other supervised institutions   | 23,350.97             | 6,692.61            | 30,043.58           |
| <b>Total</b>  | <b>3,367,158.30</b>   | <b>2,063,192.77</b> | <b>5,430,351.07</b> |

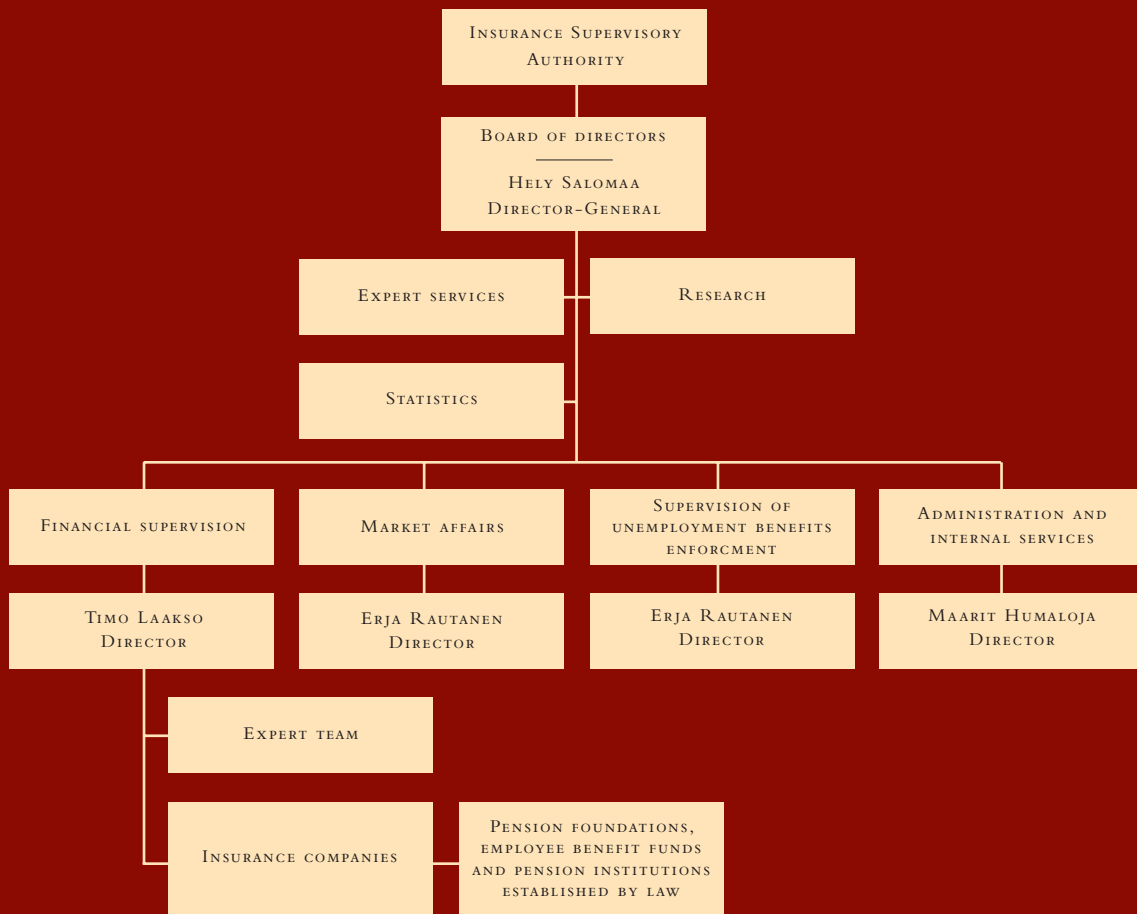
## 7. Total Expenses by Group of Supervised Institutions



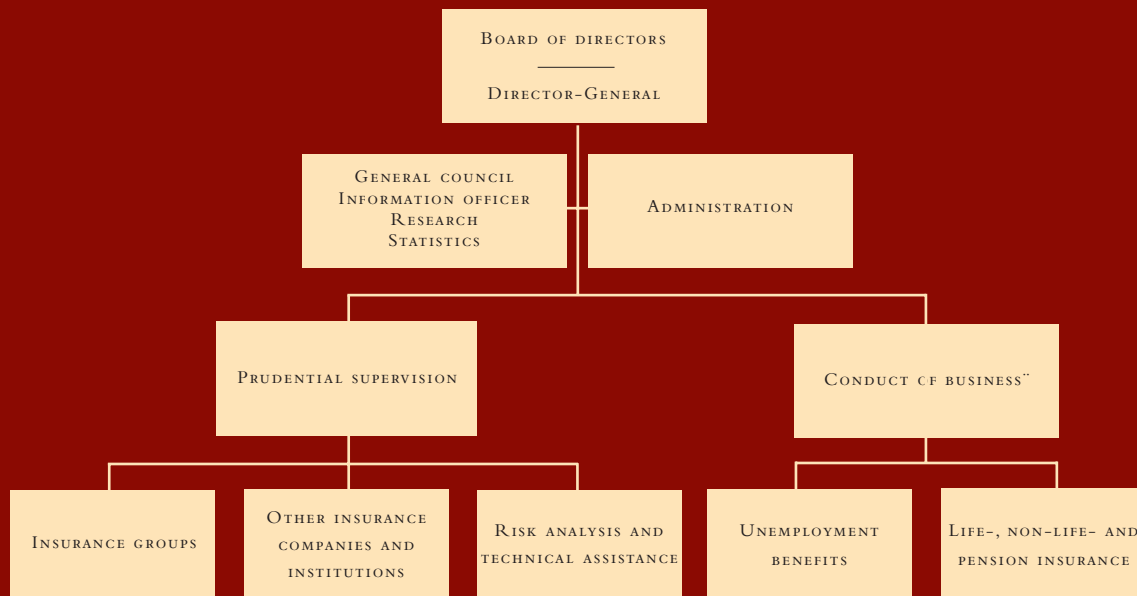
## 8. Annual Development of Total Expenses by Group of Supervised Institutions (EUR '000)

| Group of Supervised Institutions   | 2002<br>Actual | 2003<br>Actual | 2004<br>Actual | 2005<br>Actual | Share,<br>%  | Change<br>over previous<br>year, % | Actual, %<br>of budgeted | 2005<br>Budget<br>(Performance<br>Agreement) |
|--|----------------|----------------|----------------|----------------|--------------|------------------------------------|--------------------------|--|
| 1. Life insurance companies  | 810            | 862            | 964            | 1,019          | 18.8         | 5.7                                | 98.2                     | 1,038  |
| 2. Non-life insurance companies  | 835            | 879            | 971            | 1,008          | 18.6         | 3.8                                | 81.2                     | 1,242  |
| 3. Employment pension<br>insurance companies   | 782            | 866            | 1,191          | 1,272          | 23.4         | 6.8                                | 92.9                     | 1,369  |
| 4. Company and industry-wide<br>pension funds  | 524            | 604            | 569            | 625            | 11.5         | 9.9                                | 105.8                    | 591  |
| 5. Other employee benefit funds  | 149            | 110            | 149            | 160            | 3.0          | 7.7                                | 69.4                     | 231  |
| 6. Pension institutions established by law   | 58             | 57             | 32             | 36             | 0.7          | 11.8                               | 82.8                     | 43   |
| 6.a. Local Government Pension Institution,<br>State Pension Fund,<br>Church Pension Fund | 64             | 83             | 108            | 104            | 1.9          | -4.2                               | 83.8                     | 124  |
| 7. The Finnish Centre for Pensions   | 16             | 14             | 12             | 14             | 0.3          | 19.8                               | 88.2                     | 16   |
| 8. Local mutual insurance associations   | 165            | 93             | 151            | 149            | 2.7          | -1.8                               | 75.8                     | 196  |
| 9. Insurance brokers   | 118            | 163            | 136            | 171            | 3.2          | 26.5                               | 98.5                     | 174  |
| 9.a. Unemployment funds  | 765            | 755            | 799            | 817            | 15.0         | 2.3                                | 80.1                     | 1,020  |
| 9.b. Unemployment Insurance Fund<br>and Educational Fund                                 | 13             | 20             | 15             | 25             | 0.5          | 63.0                               | 96.0                     | 26   |
| 10. Other supervised institutions  | 21             | 17             | 20             | 30             | 0.6          | 46.7                               | 100.1                    | 30   |
| <b>Total</b>   | <b>4,320</b>   | <b>4,523</b>   | <b>5,118</b>   | <b>5,430</b>   | <b>100.0</b> | <b>6.1</b>                         | <b>89.0</b>              | <b>6,100</b>                                 |

## Organisation, as of 31 December 2005



## Organisation, as of 1 February 2006



## D. The ISA's Organisation: The Independent Insurance Supervisory Authority

### Board of Directors as of 31 December 2005

#### Chairman

Tarmo Pukkila, Head of Department,  
Director-General,  
Ministry of Social Affairs and Health

#### Deputy members

Sinikka Rajaniemi, Chief Pharmaceutical Officer  
Ministry of Social Affairs and Health  
(as of 31 May 2005)\*

#### Vice Chairman

Carin Lindqvist-Virtanen, Ministerial Adviser  
Deputy Head of Department,  
Ministry of Social Affairs and Health

Leena Väänänen, Senior Actuary

#### Members

Kaarlo Jännäri, Director  
Financial Supervision Authority  
Pekka Laajanen, Legislative Director  
Ministry of Finance  
Matti Louekoski, Deputy Governor  
Bank of Finland  
Hely Salomaa, Director-General  
The Insurance Supervisory Authority

Jukka Vesala, Deputy Director  
Ilkka Harju, Legislative Counsellor  
Heikki Koskenkylä, Head of Department  
Timo Laakso, Director

\* Up to the said date, Matti Toiviainen, Deputy Head of Department, Insurance Counsellor

**The ISA is a supervisory authority** subordinate to the Ministry of Social Affairs and Health but with independent decision-making powers. 2005 was the ISA's sixth full year in operation. The ISA's operations are steered and supervised by a Board of Directors established by the Ministry on 30 March 2005. The Board members for the period 1 April 2005 - 31 March 2008 are shown above.

The ISA is headed by the Director-General, who is assisted by the other Directors.

#### **In 2005, the ISA was divided into four departments:**

1) Financial Supervision, 2) Market Affairs, 3) Supervision of Unemployment Benefits Enforcement, and 4) Administration and Internal Services. In addition to these, Expert Facilities, and Research and Statistics units functioned in direct subordination to the Director-General.

The ISA is regulated by the Act on the Insurance Supervisory Authority (78/1999), and the special enactments regarding the insurance industry. The organisation and business management of the Authority is regulated by the decree on the Insurance Supervisory Authority (102/1999).



# 2005



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INSURANCE SUPERVISORY AUTHORITY (ISA)

2005

ISSN 1795-0120

ISBN 952-5350-34-7

[www.vakuutusvalvonta.fi](http://www.vakuutusvalvonta.fi)