

ANNUAL REPORT 2004



VAKUUTUSVALVONTA

RATIONAL SUPERVISION BASED ON FORESIGHT & KNOW-HOW.

KEEPING A CLOSE EYE ON THE INSURANCE MARKETS.

2004

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COVER: IMPRESSIONS RIVES DESIGN 350 G/M² TALVIKKI

PAGES: GALERIE ART SILK 150 G/M²

PRINTING BY ERWEKO PAINOTUOTE OY 2005

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” Natural catastrophes with a global impact and solvency requirement reforms by the EU kept the ISA more than busy.”

In 2004, the international insurance markets were affected by natural catastrophes that occurred in different parts of the world. As a result of dramatic floods and hurricanes, the volume of claims filed with insurance companies was larger than ever. Despite the vast human and financial loss caused by the earthquake in Indonesia and the subsequent tsunamis, the number of claims covered by insurance companies is expected to remain relatively low, considering the extent of the catastrophe.

A large number of Finnish citizens were injured or unaccounted for in the Asian catastrophe. Although the distress and suffering of the victims and their families cannot be measured in money, insurance payments can be of major importance to their financial security. For this reason, it is crucial that problems related to data protection and other legal matters be solved so that insurance companies can make compensation payments as soon as possible.

An overall reform of insurance companies' solvency requirements has been underway within the European Union for several years. According to the policy set by the EU Commission, the aim is to achieve a solvency framework that is based on the international financial reporting standards (IFRS). Similar to the banking industry's solvency reform known as Basel II, the framework is based on requirements structured around three pillars in which the various risks involved in the insurance business are taken into account. Furthermore, the Commission aims at achieving a system that is compatible

with the solvency models developed by the International Association of Insurance Supervisors (IAIS) and the International Actuarial Association (IAA). The Commission estimates that a directive defining the new solvency requirements will be implemented in 2010.

In 2004, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) started its work as the Commission's advisor in insurance and pension matters. CEIOPS plays a key role in the solvency reform project, and ISA's representatives participate in the working groups established by CEIOPS that prepare the technical implementation of the solvency framework as requested by the Commission. A major challenge affecting this project is that the IFRS insurance standard currently applied is not a final one. In addition to quantitative solvency requirements, insurance companies' internal control and risk management play a key role in the solvency framework, and it is in defining the requirements affecting these two particular areas that CEIOPS has advanced the furthest. A draft consultation paper on the requirements affecting not only insurers but also supervisors will be submitted to the Committee in February 2005, and comments on the draft are welcome from the various stakeholders involved.

On 1 May 2004 the European Union expanded considerably with the accession of 10 new member states. By the end of the year, only six insurance companies domiciled in these countries had sub-

I WISH TO THANK OUR BOARD OF DIRECTORS FOR THEIR FRUITFUL CO-OPERATION AND OUR ENTIRE STAFF FOR THEIR UNCOMPROMISING PERFORMANCE IN ACHIEVING OUR IMPORTANT GOALS.

mitted a notification on their intention to provide insurance services in Finland, whereas the number of such notifications from old member states increased compared to previous years. As for Finnish insurance companies, the establishment of branch offices in the new member states, or provision of services directly from Finland to these countries, is rare. Instead, Finnish insurers' overseas operations continue to be based on subsidiaries.

New national regulations affecting both insurance brokers and insurance agents as required by the insurance mediation directive were prepared in Finland in 2004. These regulations will make it

possible to conduct insurance mediation throughout the entire European Union on the basis of registration carried out in one's home country. From the viewpoint of supervision, the directive's lack of stipulations regarding the role of the home and host country's supervisory authorities in monitoring such insurance intermediaries is problematic. The various member states' national regulations being drafted based on the directive seem to be diverging from one another, making it more difficult to create consistent, EU-wide supervisory practices.

All in all, 2004 was a truly busy and challenging year for the ISA across all of its fields of activity.

HELY SALOMAA
DIRECTOR-GENERAL



It is in everyone's interests that Finnish insurance markets operate on a solid foundation. That is why we are needed.

Aiming at stable insurance markets and confidence in the insurance business

The main task of the Insurance Supervisory Authority (ISA) is to promote the financial stability of insurance and pension institutions while maintaining confidence in the insurance business in Finland. In line with our mission, we strive to be a skilled, efficient and reliable expert authority anticipating the risks associated with the operations of the institutions under our supervision.

Operational costs incurred by the ISA are covered by supervision and procedural fees collected from the supervised institutions. From the viewpoint of public finances and the tax burden on citizens, our net budgeting based finances can be considered an advantage.

ISA - an expert with renowned know-how and an effective ability to anticipate

The major part of our clientele consists of supervised institutions, i.e. insurance and pension institutions and other operators in the insurance business. Alongside supervision, the ISA customer service covers registration and other decisions, permissions and approvals required by law. Other customers include Finnish and foreign authorities, insurance industry organisations and the media.

Our daily operations are based on the monitoring and control of insurance and pension institutions and other operators in the insurance industry. We conduct financial supervision by controlling and assessing the supervised institutions' solvency and solvency development, internal control and risk management systems as well as the reliability of their administration.

In addition, we check that the institutions under





our supervision abide by the law and good insurance practice and that insurance and pension institutions, insurance brokers and unemployment funds apply the appropriate procedures in their customer relationships. Furthermore, we ensure that insurance terms and conditions as well as statutory non-life insurance premiums conform with the legislation in force, and promote insurance-related research.

Our financial supervision activities focus on the more risk-prone institutions, internal control development, and co-operation between the supervisory authorities

In our financial supervision, we

- focus on the supervision of the more risk-prone and major operators in the insurance industry
- promote internal control and the development of risk management within 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 on the insurance and financial markets

We supervise the insurance market by analysing, among other things, the legality of practices and insurance terms and conditions, the adequacy and reasonableness of premium levels, the transparency of marketing and the operations of insurance mediators

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 non-life insurance lines are sufficient and reasonable
- make sure 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 mediators in line with legislative amendments

Moreover, we participate in creating common supervision practices for insurance supervisors in the EU and maintain crisis management preparedness together with other supervisory authorities.



The Insurance Supervisory Authority is part of the public administration

We are a supervisory authority administratively subordinate to the Ministry of Social Affairs and Health but with independent decision-making powers, and we have a Board of Directors established by the Ministry. The ISA's organisational structure is shown in detail at the end of this document.

The ISA staff consists of 72 officials with an average age of 44.1 (31 Dec 2004). Motivated and open to reform, they represent a wide variety of expertise in the various sectors of the insurance market. Their level of education is high; most of them have a university degree in law, economic sciences or actuarial mathematics. We ensure our competitiveness as an employer by enhancing our payroll structure, engaging in training and maintaining the working ability of our staff.





2004



A. From this basis...

OUR MAIN TASK IS TO ENSURE THAT INSURANCE OPERATORS FULFIL THEIR OBLIGATIONS, THAT THEIR OPERATIONS AND PRODUCTS CONFORM TO THE LEGISLATION IN FORCE AND THAT THEIR PROCEDURES ARE FAIR AND THEIR PRICING REASONABLE.

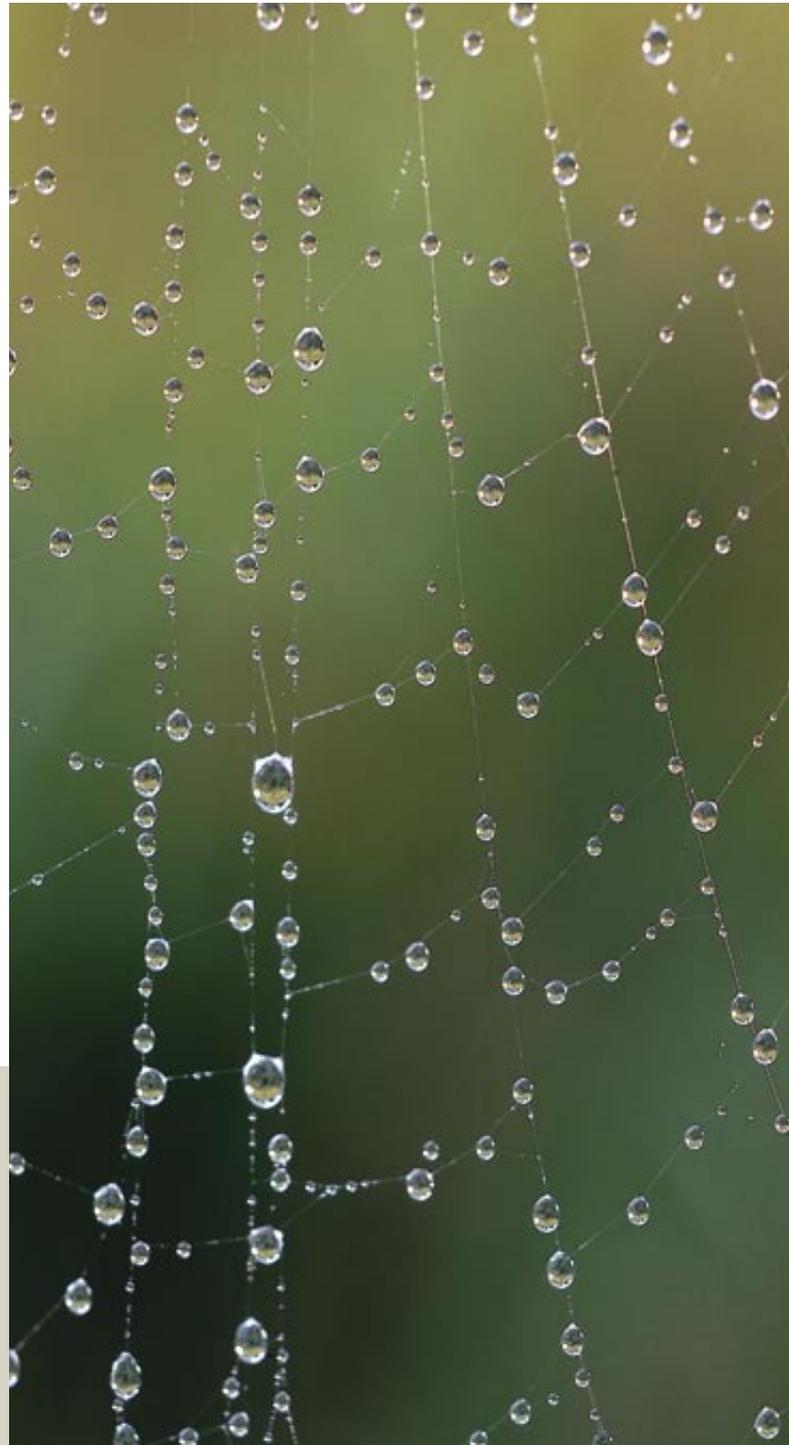
1. Tasks, objectives and strategy

The aims of our operations: stability and confidence

The foremost 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. Our mission is 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 conduct financial supervision by controlling and assessing 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 brokers 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 are



also involved in the promotion of insurance-related research.

Our recent strategy statement defines the focuses of our financial supervision activities and supervision of the insurance markets

As stated in our strategy confirmed by the Board of Directors on 26 October 2004, the focuses of our supervisory activities are as follows:

In our financial supervision, we

- focus on the supervision of the more risk-prone and major operators in the insurance industry
- promote internal supervision and the development of risk management within 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 on the insurance and financial markets

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 mediators in line with legislative amendments

Our strategy emphasises the transparency of operations, common supervision practices in the EU, competitiveness as well as the assessment and allocation of resources

The ISA must ensure the transparency of its operations and the efficacy of its supervision processes, participate in creating common supervision practices for insurance supervisors in the EU and maintain crisis management preparedness together with other supervisory authorities.

We need to ensure our competitiveness as an employer by developing our payroll structure and training our 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 our employees.

To ensure economic and efficient operations, we allocate our resources based on the tasks in hand, towards focal areas in insurance supervision, while encouraging cost-consciousness among our staff.

2. Our customers consist of the supervised institutions.

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

At the end of 2004, the ISA supervised the operations of 835 institutions, 48 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 331. Structural changes in the insurance markets continued in 2004. Some of the companies under our supervision belong to domestic or multi-national insurance, or insurance and financing groups, the monitoring of which requires efficient co-operation with the Financial Supervision Authority, and supervision authorities monitoring insurance and financial businesses in other countries.

Number of Supervised Institutions (Registered by ISA)

| Group Subject to Supervision | 31 Dec 2004 | 31 Dec 2003 | 31 Dec 2002 | 31 Dec 2001 | 31 Dec 2000 | 31 Dec 1999 | Change | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|------------|-----------|
| | | | | | | | 2003-2004 | 1999-2004 |
| Life insurance companies *) | 15 | 15 | 15 | 15 | 15 | 15 | 0 | 0 |
| Non-life insurance companies *) | 26 | 29 | 31 | 33 | 34 | 34 | -3 | -8 |
| Employment pension insurance companies | 7 | 7 | 6 | 6 | 6 | 6 | 0 | 1 |
| Company pension funds *) | 103 | 110 | 128 | 168 | 208 | 222 | -7 | -119 |
| Industry-wide pension funds *) | 17 | 17 | 17 | 18 | 18 | 20 | 0 | -3 |
| Employee sickness and other employee benefit funds *) | 162 | 166 | 165 | 167 | 169 | 180 | -4 | -18 |
| Pension institutions founded on the basis of law | 2 | 3 | 4 | 4 | 4 | 4 | -1 | -2 |
| Local Government Pensions Institution, , State Pension Fund, Church Pension Fund | 3 | 3 | 2 | 2 | 2 | | 0 | 3 |
| Local mutual insurance associations | 98 | 105 | 116 | 116 | 117 | 118 | -7 | -20 |
| Insurance brokerage firms | 69 | 67 | 69 | 57 | 44 | 36 | 2 | 33 |
| Insurance brokers | 262 | 260 | 248 | 215 | 190 | 152 | 2 | 110 |
| Unemployment funds | 40 | 42 | 42 | 43 | | | -2 | 40 |
| The Unemployment Insurance Fund + Educational Fund | 2 | 2 | 2 | 2 | | | 0 | 2 |
| Other | 8 | 9 | 9 | 8 | 6 | 6 | -1 | 2 |
| Foreign EEA insurance companies' representative offices | 21 | 20 | 18 | 17 | 14 | 12 | 1 | 9 |
| Grand total | 835 | 855 | 872 | 871 | 827 | 805 | -20 | 30 |
| Foreign EEA insurance companies' | 415 | 375 | 347 | 323 | 302 | 267 | 40 | 148 |

notifications based on the freedom to provide insurance services

*) The above figures include institutions in liquidation as follows:

| | | | | | | | | |
|---|----|----|----|----|----|-----|----|-----|
| Life insurance companies | 1 | 1 | 1 | 1 | 1 | 1 | | |
| Non-life insurance companies | | 1 | 1 | 1 | 1 | 1 | | |
| Company pension funds | 11 | 17 | 31 | 67 | 98 | 107 | -6 | -96 |
| Industry-wide pension funds | 4 | 2 | 1 | 2 | 1 | 3 | 2 | 1 |
| Employee sickness and other employee benefit funds | 7 | 10 | 9 | 12 | 12 | 17 | -3 | -10 |

3. Financial performance: enjoying the strong tailwind of positive developments.

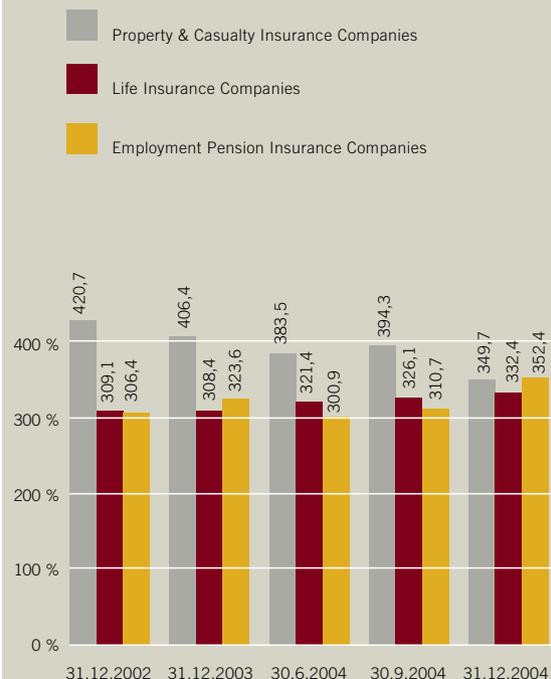
DUE TO THE FAVOURABLE DEVELOPMENT OF INVESTMENT MARKETS THE INSURANCE INSTITUTIONS' AGGREGATE SOLVENCY STRENGTHENED AND THEIR INSURANCE TECHNICAL PROFITABILITY IMPROVED.

Towards strengthened solvency and improved profitability

Insurance institutions' aggregate solvency strengthened clearly during the year. However non-life insurance companies' solvency margin in total fell by 2 % to 1.849 million euros. Diverging development compared to other insurance institutions was affected by many factors like non-life companies' on average lower net investment income because of more moderate risk-taking and buffering of good insurance technical results in equalisation provisions for worse claim-years to come. Life insurance companies' solvency margin in total rose by 13 % to 3.342 million euros and statutory pension insurance companies' solvency margin in total rose by 23 % to 9.614 million euros. Pension funds' solvency margin in total grew by 20 % and pension foundations' solvency margin in total rose by 14 % compared to the situation at the beginning of the year. Positive

solvency development was particularly due to the rise of bond prices because of the remarkable fall of interest rates and favourable development in the stock markets. The solvency development of non-life insurance companies was positively impacted by clear improvement of insurance technical results. This can be noticed mainly in growing equalisation provisions that is part of the solvency capital.

Insurance companies' solvency margins in relation to the minimum amount



4. Staff: Every achievement is based on competent and enthusiastic employees.

IN OUR ORGANISATION THE STAFF CONSISTS OF MOTIVATED, ACHIEVEMENT-ORIENTED, SKILLED AND HIGHLY-EDUCATED INDIVIDUALS.

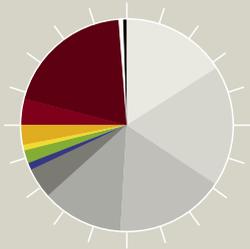
The ISA's human resources policy is based on a skilled, well-motivated and flexible staff whose well-being is enhanced through measures targeted at ability to work, professional skills and forging a working community.

On 31 December 2004, we employed 72 officials, ten more than in the previous year. Five staff members were deputy officials employed for a fixed term, and there were two vacancies. The number of

actual man-years was 65.3, up 1.8 man-years on the previous year. The average age of staff was 44.1, the same as the Government average.

The level of education of ISA personnel is high; the majority hold a university degree, usually in law, economic sciences or (actuarial) mathematics, thus representing a wide variety of expertise across the various sectors of the insurance market.

The number of actual man-years divided between the supervised groups in 2004



| Supervised group | Actual man-years | % |
|--|------------------|--------------|
| 1 Life insurance companies | 9,1 | 16,3 |
| 2 Property & casualty insurance companies | 9,9 | 17,7 |
| 3 Employment pension insurance companies | 9,6 | 17,2 |
| 4 Company pension funds?? | 7,0 | 12,6 |
| 5 Other employee benefit funds?? | 2,4 | 4,3 |
| 6 Pension institutions founded on the basis of legislation | 0,3 | 0,6 |
| 6.a. The Local Government Pensions Institution, the State/Church Pension Funds | 1,5 | 2,7 |
| 7 The Unemployment Insurance Fund | 0,1 | 0,2 |
| 8 Insurance associations | 1,9 | 3,4 |
| 9 Insurance brokers | 2,3 | 4,1 |
| 10 Unemployment funds | 11,2 | 20,0 |
| 10.a. The Unemployment Insurance Fund and the Educational Fund | 0,3 | 0,5 |
| 11 Other supervised groups | 0,3 | 0,5 |
| Total for all supervised groups | 55,9 | 100,0 |
| Administration and Support Services | | 9,4 |
| Grand total | 65,3 | |



5. Funding of operations: All costs are covered by fees collected from the supervised institutions.

Costs incurred by the ISA are covered by supervision and procedural fees collected from the supervised institutions. The financing of our operations is regulated by the Act on the Financing of the Insurance Supervisory Authority (479/1944). For decisions based on applications, and other order-based services, a fee is collected based on the Act on the Charging Criteria of the State (150/1992).

Our finances are based on net budgeting, which means that the fees we collect must cover all of our expenses. Actual income for 2004 amounted to EUR 5.1 million (budget: EUR 5.6 million). Value Added Tax related to expenses has been entered under the VAT expense of the Ministry of Social Affairs and Health's administrative branch.

Supervision fees are determined on the basis of the ISA's cost accounting and the supervised institutions' annual accounts in accordance with the grounds confirmed by the Ministry of Social Affairs and Health. When determining supervision fees, fees defined in the Act on Criteria for Charges Payable to the State, charged to the supervised institutions in question, are deducted from our budgeted expenses. The invoicing surplus accrued for the previous financial year is taken into account as a decrease in invoicing, by group of supervised entities. The invoicing deficit accrued for the previous financial year is taken into account as an increase in invoicing, by group of supervised entities. The accrued invoicing surpluses/deficits for 2004 have been taken into account in the supervision fees for 2005.

The ISA has put forward an initiative to the Ministry of Social Affairs and Health, proposing that the

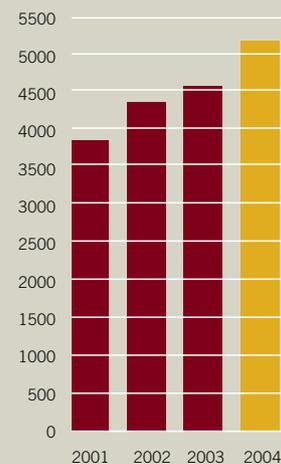
**OUR IDEA OF A SOUND ECONOMY:
THE ANNUAL OPERATIONAL COSTS ARE
FULLY COVERED BY THE COLLECTED
SUPERVISION FEES.**

Ministry introduce an overall amendment of the Act on the Financing of the Insurance Supervisory Authority. The ISA is of the opinion that the fee-determining basis should be revised so that the supervised institutions can better anticipate future fee levels.

The overall increase in costs incurred by the ISA as compared to 2003 was 13 per cent. Staff expenses grew by 10.7 per cent due to the filling of vacancies and the subsequent increase in man-years. Other costs increased by 22.5 per cent year on year.

A performance agreement for 2004 was signed between the ISA and the Ministry of Social Affairs and Health on 18 December 2003.

**The total costs by the ISA
2001-2004 (EUR 1000)**







B. Our achievements in 2004...

RELIANCE ON MODERN INFORMATION
SYSTEMS, EFFICIENT SUPERVISION PROCESSES
AND SMOOTH CO-OPERATION WITH OTHER
AUTHORITIES MAKE OUR CONSISTENT
SUPERVISION POSSIBLE.

2004

1. Financial supervision

Supervision of finances and solvency according to plan

Supervision of insurance companies was carried out according to plan, except for a few subject-specific inspections which were not performed mainly due to prioritisation of other supervision matters as well as timetables. In the financial supervision of company and industry-wide pension funds, particular attention was paid to the efficient utilisation of the new database of supervised institutions.

As part of its financial supervision, the ISA issued two admonitions or exhortations based on the legislation in force. These resulted from negligence related to the supervised institutions' internal processes, and were not particularly grave. Such minor deficiencies discovered through our supervisory activities are normally solved through a dialogue between the supervisor and the supervised institution.

Inspections of internal control

Four inspections of internal control were completed in 2004 while three inspections will be finished in 2005. In addition to these, we participated in one partial inspection in co-operation with the Financial Supervision Authority. The inspections were carried out in accordance with the instructions on internal control as stated in the ISA's Supervisor's Handbook.

The matters to which the ISA drew the attention of the supervised institutions included the following:

- Board work and consideration of internal control by the Board
- supervisory auditor's being heard on the Board
- the risk management process and the contents of the risk management plan
- monitoring of the assets covering technical provisions

- organisation of an internal audit

Based on these inspections, internal control within the supervised institutions was assessed to be satisfactory. We will gain an overall impression of the matter in 1 to 2 years after we have inspected all major groups/companies.

Fit and proper supervision

On the basis of the legislation regulating insurance companies, the ISA performed fit and proper evaluations involving the management of 90 insurance companies in 2004. This supervision was further developed on the basis of experience gained from supervisory activities.

Efficient supervisory co-operation involving Sampo, If Group and Nordea

The ISA supervised the Sampo Group in close co-operation with the Financial Supervision Authority. In the spring of 2004, a risk evaluation involving the entire Sampo Group was carried out. A major expansion of supervisory co-operation involving the Sampo Group was implemented after Sampo had acquired control of the Swedish-based If Group. As a result of this, the Finnish Financial Supervision Authority, the ISA, Finansinspektionen (the Financial Supervision Authority) in Sweden and Kredittilsynet (the Banking, Insurance and Securities Commission) in Norway signed a Memorandum of Understanding on the supplementary supervision of the Sampo Group. The coordinating authority is the Finnish Financial Supervision, which is also the principal supervisor of the Sampo Group. The ISA will continue to supervise the Finnish insurance companies forming part of the Sampo Group.

Close co-operation between the Nordic insurance supervisory authorities on the supervision of

the If Group continued in 2004. This included a risk analysis of the entire Group, which the supervisory authorities drew up together and which was also discussed with If Group's top executives.

The Nordic insurance supervisory group supervising Nordea convened three times in 2004. The first occasion was a two-day inspection visit, the second a planning day for a risk evaluation of Nordea's insurance sub-group, and the third a planning day for an inspection visit that will be carried out during the first half of 2005. In our opinion Nordic co-operation in this field has been smooth and the objectives set for the supplementary supervision have been met.

Supervision of the reasonableness and adequacy of workers' compensation insurance premiums

With respect to workers' compensation insurance, the ISA implemented a new data gathering model in its accounts for 2004.

A statistical study based on the collected statistical data was published in the form of a press release on 1 November 2004. Premium income for workers' compensation insurance as stated in the profit and loss accounts came to EUR 516.0 million in 2003 (EUR 515.6 million in 2002). Aggregate technical provisions totalled EUR 2,324 million (EUR 2,112



million), the increase being attributable to the decrease in the discounting rate (EUR 38.5 million), a change in the mortality model (EUR 51.3 million) and the strengthening of the collective provisions (EUR 10.0 million) and the asbestos provisions (EUR 21.2 million). Mainly as the result of the above mentioned items, the reported combined ratio (the ratio of claims and operating expenses to premium income) increased to 131.5 per cent (107.0).

Due to the nature of this line of insurance, it is impossible to arrive at sustainable conclusions on the materialisation of the reasonableness principle on the basis of an analysis of data covering only a few years. This can be done only after data covering a period longer than one economic cycle becomes available.

Investigation of motor third party liability insurance premium levels

The ISA performed an investigation of motor third party liability (motor TPL) insurance premiums, claims and operating expenses for the period 1998–2002. The Finnish Motor Insurance Act requires that such premiums are in reasonable proportion to the expenses arising from the insurance. The combined ratio, i.e. the ratio of claims and operating expenses to premium income, was used as the premium level indicator in the investigation. The combined ratio decreased throughout the entire motor TPL business during the period under review, from 132 per cent in 1998 to a mere 108 per cent in 2002, providing an average combined ratio of 122 per cent for the period. In order to achieve a zero result in their motor TPL insurance business, insurance companies should have obtained an average return on investment of six per cent on the assets covering the technical provisions pertaining to this line of insurance.

The combined ratios declined in all Groups during the period under review. In some companies,

combined ratios attached to licensed traffic were the highest and those of private households the lowest. The largest fluctuations in combined ratios occurred in motorcycle insurance (112–177 per cent). Although there were differences between insurance companies' average combined ratios (within a range of 100–132 per cent), annual fluctuations within individual companies were usually larger than the differences between companies.

Revised regulations and guidelines

The ISA continued to review its regulations and guidelines in 2004. The revised regulations were introduced in two stages, some on 31 December 2004 and the remainder on 1 January 2005.

Key changes in regulations enacted at the end of 2004 were attributable to changes in the Insurance Companies Act, the Act on Foreign Insurance Companies and the Local Mutual Insurance Associations Act and the adaptation of the said acts to the directives of the European Parliament and Council on life and non-life insurance companies (the so-called Solvency I).

Key changes in regulations enacted at the beginning of 2005 related to the implementation of the so-called Fair Value Directive and Modernisation Directive of the European Union, affecting the companies' financial statements, to national legislation. The most significant content change introduces the possibility to value financial instruments and/or real estate held as an investment at their current value in the financial statements of insurance companies and company and industry-wide pension funds. However, no Finnish insurance company or pension fund is expected to exploit this possibility in their individual financial statements due to current taxation regulations for accounting based on current value.

The taxation decisions are still open, and insurers will await clarification of these matters before making any transition decisions. From the viewpoint of insurance companies and pension funds, this involves the question of so-called off-balance-sheet valuation differences and how they will be recognised as income during the transition to current value accounting.

Furthermore, the ISA further specified its regulations on insurance companies' internal control and risk management, and provided them with corporate governance guidelines for the first time.

Analysis of the need for supervisory co-operation agreements with the new EU member states

The ISA did not conclude any new country-specific agreements on supervisory co-operation with the new EU member states in 2004. We find that the regulatory harmonisation of the insurance business in line with EU directives and, in particular, Memorandums of Understanding on supervisory co-operation signed between supervisory authorities within the EU, are sufficient tools for steering general supervisory co-operation between the various countries. However, Memorandums of Understanding on supervisory co-operation are considered important at the level of supervised institutions. With respect to the Sampo Group, the ISA initiated negotiations on co-operation with the insurance supervisory authorities of the Baltic countries concerning group supervision of the insurance sub-groups of Sampo Life Insurance Company Ltd and If P & C Insurance Company Ltd in accordance with the Insurance-Group Directive of the EU.

Development of the supervisory code of practice (the so-called Supervisor's Handbook)

In 2004, the ISA completed drawing up a code of practice concerning ceded reinsurance and implemented two pilot inspections on the basis of the said code. While a code of practice on activities in crisis situations will be completed in 2005, the supervisory code of practice on fit and proper evaluations was updated in 2004.

The so-called financial statements report, an internal document compiled by the ISA on the supervised insurance companies on an annual basis, was transformed into a risk evaluation report. Intensive transformation work continued throughout the autumn of 2004, after which the inspection groups implemented the new model at the beginning of 2005.

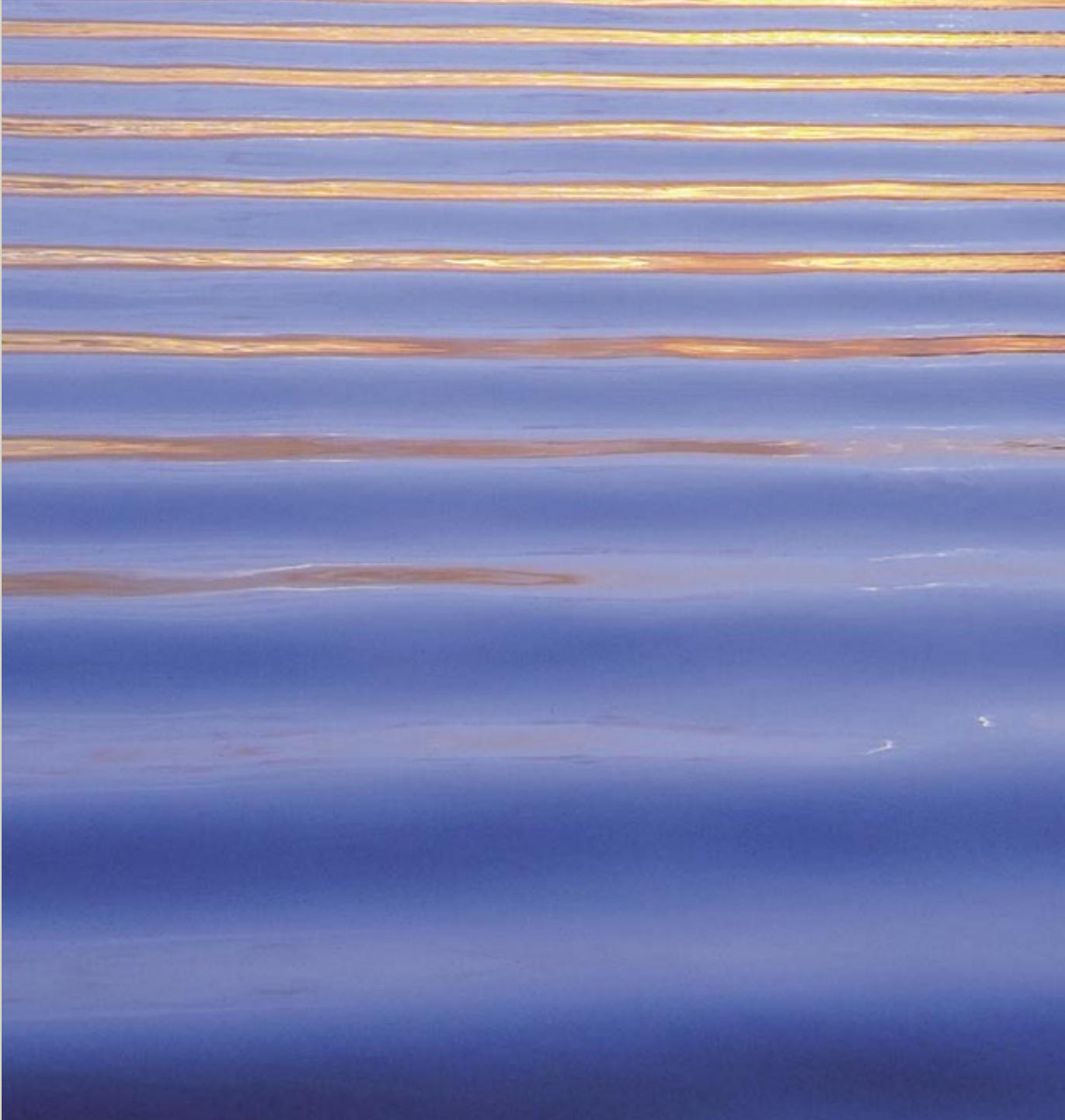
Development of the databases

Development plans concerning the supervisor workstation, a database application covering financial information filed by life and non-life insurance companies and local mutual insurance associations, were charted in 2004. The implementation of the new features proposed by the users was initiated in 2004 and will be concluded in 2005.

Self-evaluation of supervisory activities as the basis for development

In response to the related inquiry by the IAIS (International Association of Insurance Supervisors), the ISA conducted a self-evaluation of its supervisory activities in the autumn of 2004. This involved the evaluation of the various fields of supervision in relation to the IAIS Core Principles of Supervision.

2. Market affairs



WE INTERVENED IN SIX PROBLEMATIC MARKETING CAMPAIGNS, RECEIVED AND PROCESSED 76 WRITTEN CITIZEN'S COMPLAINTS AND INSPECTED FOUR BROKERAGE COMPANIES.

Insurance companies' marketing campaigns

Among the marketing campaigns which came to its notice, the ISA intervened in six campaigns, five of which related to the operations of a Finnish insurance company and one to the activities of an agent working for a representative office of a foreign EEA insurance company. The following problems were pinpointed :

- misleading description of an insurance product
- failure to disclose one's status as an agent or the name of the company responsible for the product (several occasions)
- marketing in connection with a payment assignment with a bank acting as the agent

Measures due to written complaints

The ISA received 76 written complaints concerning the activities of insurance institutions and four concerning the activities of insurance brokers, which it inspected through a written procedure as part of the supervision of the procedures taken by insurance institutions and insurance brokers.

As a result of these, we requested insurance companies to change their instructions to agents in order to meet the disclosure obligation in connection with travel insurance sales. In six cases, we drew the insurance companies' attention to the following deficiencies:

- failure to issue an insurer's decision and respond to inquiries
- lack of care in the handling of insurance applications
- excessive handling time

- sending of a request for clarification (a routine measure) took too long
- lack of care in handling claims documents
- impertinent behaviour towards a customer in connection with collection procedures (reminder of the Administrative Procedure Act's requirement for using the appropriate language)

With respect to insurance brokers, we were asked to investigate cases in which the customer felt the broker had failed to chart the customer's insurance needs appropriately or provide the customer with correct and sufficient information on the insurance.

As an administrative authority, the ISA cannot change or reverse an individual claims settlement decision taken by an insurance company. Instead, there is a specific appeal procedure for such purposes.

Inspections of brokerage companies and other investigations on the legality of insurance brokers' procedures

The ISA inspected four brokerage companies during the first half of 2004. Furthermore, it revised all brokerage companies' annual reports and performed other investigations on their operations. Towards the end of the year, we focused on the development of the contents as well as testing the future register of insurance intermediaries, and prepared guidelines for supplementing legislation relevant to insurance intermediaries. The ISA also received several inquiries concerning new legislation and the register of insurance intermediaries.

The defects discovered by the ISA in connection with inspections, annual reports and other investigations included the following:

- Contrary to our statement, brokerage companies had concluded contracts with unregistered companies which performed activities related to insurance mediation. One company refused to discontinue such arrangements and filed a complaint to the Supreme Administrative Court.
- We investigated arrangements between one brokerage company and one life insurance company whereby the insurance company had given the brokerage company exclusive mediation rights to its pension insurance. The ISA found that this agreement compromised the insurance broker's independence. The parties accepted our opinion and dissolved the arrangement.
- We urged one brokerage company to keep its brokerage activities and the related customer registers separate from the operations of a closely-owned agency.
- Upon one brokerage company's liability insurance coverage being found out of line with requirements, the company rectified the matter.
- We required that each member company of a chain formed by several brokerage firms meet the related legal requirements, after which they changed their staffing so as to comply with the law and rules and regulations.
- Following the bankruptcy of one brokerage company, the ISA had to search for the manager in charge, who did not respond to its attempts to make contact. We also felt obliged to investigate the actions of a lawyer who had acted as the bankruptcy trustee, and handled inquiries resulting from the transfers of customer relationships performed by the lawyer.
- We investigated whether the registration requirements related to staffing were met.
- In five cases, we investigated mediated policies concentrated on a single insurance company.



- With respect to assignment contracts, some companies' practices were not in line with legal requirements and the related ISA guidelines.
- We performed inspections on the accuracy of data disclosed in annual reports.

Statutory motor third party liability insurance for Russia

At the beginning of 2004, the ISA performed a survey among insurance brokers in order to clarify the procedures related to the mediation of statutory motor TPL insurance policies for Russia, and intervened to rectify shortcomings identified in the use of individual agents. Altogether, five to six companies mediated motor TPL insurance policies for Russia.

Supervision of insurance brokers' meeting of qualification requirements, and registration decisions

In 2004, the ISA received 63 registration applications, approving 48 new applications and five applications for a change in rights. Nine applications were rejected on the basis of insufficient training or experience, and nine will be handled in 2005. 13 new brokerage firms and 35 new brokers were entered in the register of insurance brokers.

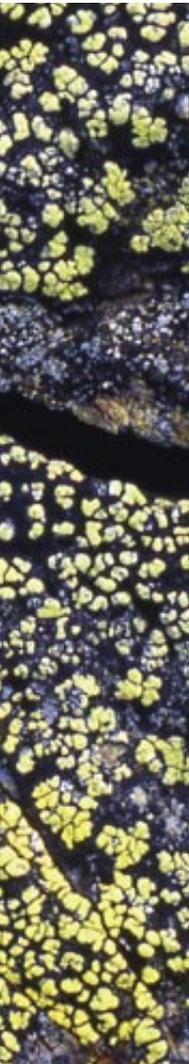
Eight brokerage firms and 25 brokers were removed from the register, mainly at their own request. Other grounds included bankruptcy or merger while one brokerage firm was removed on the basis of a decision taken by the ISA.

Supervision of compliance with rules and regulations concerning the prevention of money laundering; inspections and clarification requests

Regulations on the prevention of money laundering were highlighted in connection with four inspection visits made to brokerage firms in the spring of 2004. Inspections related to money laundering were performed in four insurance companies or groups.

Supervision of Insurance Products

The ISA inspects the terms and conditions of new insurance products which have come to its attention and which are important to consumers or in other ways, and intervenes in cases of illegal terms and conditions. In 2004, we considered the terms and conditions of the new life and pension insurance products offered by two Finnish life insurance companies, providing a technical rate of interest of 0 per cent.



3. Supervision of unemployment benefits enforcement

The Supervision of Unemployment Benefits Enforcement department within the ISA focuses on financial supervision, supervision of practices related to the granting of unemployment benefits, and supervision of procedures. We also issue regulations and instructions concerning accounting, provide consultancy and training for those enforcing unemployment benefits, and participate in law-drafting. Furthermore, we draw up statistics and reports, and maintain beneficiary and unemployment fund registers. In 2004, we compared the supervision of unemployment benefits enforcement to the other insurance supervision we perform and initiated an analysis of the need to supplement regulations concerning supervisory powers.

Financial Supervision

The ISA inspects unemployment funds' finances by accounting period on the basis of the accounting records received, the benefit payment data contained in the register of beneficiaries, and inspection visits made to the funds if necessary. In December 2004, we issued a new set of regulations on unemployment funds' financial statements.

Unemployment benefits are funded from Government assets, and those of the Unemployment Insurance Fund and various unemployment funds. The Ministry of Social Affairs and Health confirms their funding shares on the basis of our proposal made on an annual basis. A proposal on the unemployment funds' final funding shares for 2003 was made to the Ministry in June 2004. In 2004, 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. Evaluation of the adequacy of the equalisation reserve's mini-

imum amount was initiated in 2004. 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. In November 2004, we confirmed the unemployment funds' membership fees for 2005.

In the financial supervision of unemployment funds the ISA pays attention to their independent administrative practices. We have carried out a special investigation into the service agreements between unemployment funds and trade unions. In 2004, we investigated how unemployment funds have implemented the requirements set forth in the ISA's statement in 2003 and sent an individual reply on the matter to each unemployment fund.

During the report year, we continued to analyse the need for regulations on the investment operations of the unemployment funds, the Unemployment Insurance Fund and the Support Fund.

Supervision of practices and procedures related to the granting of unemployment benefits

With respect to the amended Unemployment Security Act, the Ministry of Social Affairs and Health confirmed the application guidelines prepared by the ISA regarding the general provisions, training allowance and adjusted or reduced unemployment benefit.

During the report year, we informed the unemployment funds and other interest groups of the results of the round of inspections completed in 2003, which concentrated mainly on the handling of membership issues by the funds. At the end of 2004, we started to plan further measures based on the said round of inspections. We also initiated a comparative analysis of the impact of the various



payment systems applied by the unemployment funds on the enforcement of benefits and funding shares. In addition to inspection visits, supervision was performed by compiling statistical analyses of the beneficiary register. Furthermore, we continued to monitor the unemployment funds' application handling-times.

The ISA investigated possible cases of fraud involving earnings-related unemployment allowance by comparing the beneficiary register's payment data for the year 2001 to taxation information. After this, the unemployment funds analysed the entitlement to earnings-related unemployment allowance and reported the results to the ISA. The purpose of these investigations, which revealed approximately 100 cases in which unemployment allowance had been paid on false grounds, is to identify and prevent the misuse of unemployment allowances. The parties involved plan to perform similar investigations on a regular basis in the future.

The Supervision of Unemployment Benefits Enforcement department maintains statutory beneficiary and unemployment fund registers. The beneficiary register provides statistical reports for the unemployment funds' supervisory purposes and for external parties.

The ISA handled 28 complaints submitted by citizens in 2004 and issued four statements to the Parliamentary Ombudsman in response to complaints addressed to her regarding unemployment security. Furthermore, the Supervision of Unemployment Benefits Enforcement department submitted a written reply to seven inquiries made by unemployment funds on the contents of the Unemployment Security Act.

4. Domestic regulatory reform

Revision of the Insurance Companies Act

In May 2004, the Ministry of Social Affairs and Health established a working group to prepare a proposal for a new Insurance Companies Act. Representatives of the ISA have participated in both the working group and its two sub-groups, and the preparatory work will continue in 2005.

Changes in insurance companies' and local mutual insurance associations' solvency margin requirements

The solvency margin requirements affecting insurance institutions have been changed in line with the requirements set forth in the directives of the European Parliament and Council. The related acts, which came into force on 1 June 2004, will be applied to financial statements for 2004. Major changes were introduced in items included in insurance institutions' solvency margin and its minimum amount. To ensure that insurance institutions will have time to adapt to the new regulations, transitional provisions were included in the new acts, allowing insurance companies and local mutual insurance associations, subject to the approval of and under the conditions determined by the ISA, to observe the old regulations until 2007 and, under certain conditions, until 2009.

In June 2004, a bulletin was issued stating that the ISA will approve the application of the transitional provisions only in cases where an insurance company or a local mutual insurance association is unable to fulfil the new requirements without recourse to the transitional period enabled by the transitional provision. By the due date, 31 December 2004, we received seven applications for such an



approval from local mutual insurance associations and small insurance companies, all of which were granted approval to apply the transitional provisions.

Towards increased transparency: disclosure of life and non-life insurance companies' key figures

In early 2004, the ISA convened an unofficial working group to consider the development of key figures. The working group, which consisted of experts from our organisation, the Ministry of Social Affairs and Health and the insurance industry, met six times over four months. In September, the working group handed the results of its work, i.e., a proposal on the disclosure of key figures and the development of their contents, to the Ministry, which took the proposal into account when changing accounting ordinances that affect insurance companies as of 1 January 2005. The conclusions of the working group were also used as a basis for the ISA's revised regulations on the key figures of insurance companies and company and industry-wide

IN ORDER TO INCREASE THE
TRANSPARENCY OF THE FINANCIAL
STATEMENTS A DISCLOSURE REQUIREMENT
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AND NON-LIFE INSURANCE COMPANIES.

pension funds operating under the Employees Pensions Act, which entered into force on 1 January 2005.

While the disclosure of key figures in connection with financial statements used to be compulsory for listed insurance companies and employee pension insurance companies, the disclosure requirement has now been extended to all life and non-life insurance companies in order to increase the transparency of their financial statements. The most essential improvement is the substantial increase in key figures and analyses reflecting the profitability of life and non-life insurance companies' investments.

Revision of the Pension Foundation Act and the Insurance Fund Act

In January 2004, the Ministry of Social Affairs and Health established a working group to prepare amendments to the Pension Foundation Act and the Insurance Fund Act. Representatives of the ISA have participated in both the working group and its sub-group, the task of the latter being to prepare a Government bill for a new Insurance Fund Act with respect to other employee benefit funds than industry-wide pension funds. The working group, which is expected to draft its proposals in the form of Government bills, will continue its activities in 2005.

Implementation of the Insurance Mediation Directive

In June 2004, the European Parliament approved the Insurance Mediation Directive which requires revision of the national regulations and supervision of insurance brokers and insurance agents working for insurance companies. The time limit for the implementation of the Directive expired on 14 January 2005 and the bill was under consideration by Parliament during the time of writing. The ISA participated as an expert in the implementation of the Insurance Mediation Directive carried out by the Ministry of Social Affairs and Health.

Draft regulations related to the implementation of the new act and the broker register were completed at the end of 2004, while the related tables, guidelines, conditions required by general good and registration application forms are currently under preparation. Until now, the ISA has had to draw up regulations on the basis of the Government bill.

Working group for adjusting the Act on Preventing and Clearing Money Laundering

On 3 November 2003, the Ministry of the Interior established a working group for adjusting the Act on Preventing and Clearing Money Laundering (68/1998). In early 2004, the working group was assigned the additional task of national preparations for the Third Money Laundering Directive of the EU. It is intended that the Commission's proposal, which is currently being considered by various organs of the EU, be approved in the autumn of 2005. The term of the working group was extended to 2005.

5. International activities: Constantly intensifying co-operation across the borders.

Solvency II project

The aim of the solvency regulations reform affecting insurance companies in the EU is a fundamentally revised arrangement which takes better account of the insurance companies' risks than before. The purpose is to implement Solvency II through the so-called Lamfalussy process which involves a two-level regulatory development: only general principles would be included in the EU directives and the more detailed regulation would be drafted by working groups operating under the CEIOPS umbrella (Committee of European Insurance and Occupational Pensions Supervisors).

Finnish expert in the EU Commission

The two-year term of the national expert seconded by the ISA to the European Commission's Insurance Unit terminated at the end of 2004. During this two-year period, Solvency II moved to its second stage. The Commission has almost completed the general outlines of the new system, the organisation of work and detailed assignments to CEIOPS, which means that responsibility for the technical preparations will soon be transferred to CEIOPS while the Commission will concentrate on the framework directive.

The CEIOPS committee

In 2004, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) began work as the Commission's advisor in insurance technical matters and as the supervisors' co-operative organ aiming at the consistent implementation of directives and supervisory practices.

CEIOPS has a key role in the Solvency II project. It has established several working groups to prepare clarifications on the various fields of solvency regulation which the Commission requests from the Committee. The representatives of the ISA participate in four working groups. Among the key issues dealt with in 2004 were the mathematical modelling of insurance companies' capital requirements and matters related to internal control and risk management. The aim is that the Committee will reply to the clarification requests in two stages in 2005, enabling the Commission to prepare a framework directive on the basis of a functioning, risk-based solvency supervision model.

The CEIOPS working group focusing on the supervision of insurance groups considers the need to amend the directive on the supplementary supervision of insurance undertakings in an insurance group, based on the experience gained on the application of the said directive. The analysis will be handed to the Commission, which must provide the insurance committee with a description of the application of the directive and, if necessary, on the related harmonisation needs.

The CEIOPS working group focusing on pensions is preparing a Memorandum of Understanding which defines the practical procedures for supervisors' co-operation as required by the directive on the operations and supervision of undertakings providing supplementary occupational pensions. The member states must enforce the acts, ordinances and administrative rules required by the directive no later than September 2005.

The CEIOPS working group focusing on insurance mediation is preparing a Memorandum of Understanding on supervisory co-operation in accordance with the Insurance Mediation Directive. The member states must enforce the regulations complying with the directive in January 2005.

6. Research:

Active participation in academic co-operation within the scientific community.

The ISA's Research Director gave a series of lectures on mathematical methods used for insurance and investment operations at the Helsinki School of Economics and an intensive course on insurance companies' investments at the University of Tampere. The research unit organised a seminar on actuarial mathematics in co-operation with the University of Helsinki, and a research seminar on investment and insurance operations in co-operation with the University of Tampere. In addition, the representatives of the research unit gave several lectures in universities and research institutes.

As part of our research co-operation, we carried out a study on the supervision of alliance structures together with Professor Pekka Korhonen and Raimo Voutilainen, a researcher, both from the Helsinki School of Economics, and a study on the insurance industry's leadership requirements with Professor Raija Järvinen of the University of Tampere. With respect to our own research activities, we published a study on risk assessment in equity markets and a report on the modelling of long-term interest rates and inflation. A junior researcher in the ISA presented the interest rate model at a scientific seminar in Australia.

The research unit also participated in the development of an actuarial degree and produced study material by drawing up a handout on the theory and applications of financing in co-operation with Professor Luis Alvarez of the University of Turku.

7. Communications:

Publication series, bulletins, statistics and training events.

The ISA issued the following statistical publications in the report year:

- Unemployment Funds 2003; the ISA Publication Series STATISTICS 2004:1
- Insurance Brokers 2003; the ISA Publication Series STATISTICS 2004:2
- Insurance Companies 2003; the ISA Publication Series STATISTICS 2004:3

The ISA and the Social Insurance Institution of Finland published a statistical summary of unemployment benefits on a monthly basis.

We also published quarterly reports on the solvency of insurance companies.

Furthermore, we compiled statistics on unemployment funds' operations, benefit expenditure and finances. In 2004, the Social Insurance Institution issued a publication on unemployment benefit expenditure in 2003, for which we provided information on the benefits paid by the unemployment funds.



8. Administration and Internal Services: Moving within the present premises, support services outsourcing, the intranet concept, upgraded procurement activities, occupational renewal and well-being.

The Administration and Internal Services department provides and purchases financial services, personnel administration services, information services, real-estate services and other internal services, and reports to and communicates with the Government's administrative organs.

The ISA has outsourced most of its support functions and concluded the related service agreements on, for example, user services related to the information systems of payroll and personnel administration, computer services, access control and telephone exchange services. Administrative work input (9.4 person years) accounted for approximately 14.4 per cent of our total person years.

The ISA occupies rented premises in the Aikatalo building at Mikonkatu 8 in the centre of Helsinki. In 2004, the ISA moved within these premises to occupy two floors instead of the former three, which has eased day-to-day co-operation.

We defined our intranet concept and the related functional requirements in order to enhance our communications and information management. Preparations were made for a generation change affecting our data security, workstations, basic software, data communications and their management. These changes will be realised in 2005. We also extended our current outsourcing agreement.

We continued to enhance the usability and reliability of the information systems that support our operations. As part of our supervision of the markets, we constructed an electronic register for insurance intermediaries which will be introduced as soon as the related legislation enters into force. According to new legislation, the ISA must register all insurance intermediaries, i.e. both insurance brokers and insurance agents working for insurance companies. We will also maintain a service outlet at which citizens will be able to inspect up-to-date basic information on insurance intermediaries in electronic format.

In order to upgrade its procurement activities, the ISA signed a co-operation agreement with Hansel Ltd. on 15 October 2004, combining its procurements with those of the Government. This will generate savings not only in the products and services it purchases but also in its procurement process costs. In addition, we continued our profitability reporting project aimed at generating profitability indicators for the ISA as well as a related follow-up database to support our management.

Renewal and ability to work

As far as the staff's occupational renewal and capacity to perform well are concerned, the key success factors are the ability and preparedness of the ISA personnel to work, the maintenance of its professional expertise as well as the authority's competitiveness as an employer.

We developed our payment structure in 2004 in order to expedite the implementation of a payment system which is based on competence classifications and personal performance. This means that all positions within the ISA have been scored and classified within competence groups. The performance of each staff member is evaluated in connection with performance reviews. According to the collective agreement concluded on 14 December 2004 on the comprehensive implementation of new payment systems in public administration, the ISA must conclude the related negotiations by 31 March 2005. In order to guarantee our competitiveness as an employer, we also examined the possibility of payment by results as a reward system.

The ISA implemented staff training mainly through personal development projects agreed during individual performance reviews. Staff members also participated in external training events and



TARGETS OF FURTHER DEVELOPMENT IN THE ORGANISATION INCLUDE THE ISA SUPERIORS' FLEXIBILITY, LISTENING SKILLS, DETERMINATION AND THE ABILITY TO MOTIVATE AND SUPPORT THE STAFF.



seminars, and experts representing various fields were invited to give lectures at our premises. Training was also provided through centralised training arrangements, both by our own experts and as a purchased service.

General well-being at work

A survey on management and superior performance was carried out at the beginning of 2004. After the results had been presented to the staff in February 2004, the management and superiors met to analyse the results and draw up conclusions. The survey indicated that the superiors' flexibility, listening skills, determination and the ability to motivate and support staff should be further developed. Staff members themselves were quite satisfied with their superiors in general and with the promotion of independence and performance. The ISA has negotiated with the State Treasury on participation in the Kaiku programme promoting occupational well-being among state employees. This training, which focuses on internal communication, interaction and management development, will be initiated in 2005.

As part of occupational health services, a rehabilitation expert gave a lecture on various rehabilitation possibilities in May 2004. We continued to encourage staff participation in various forms of physical exercise. Other ways of enhancing the employees' well-being at work included work ability maintenance activities, a joint outdoor recreation day, and seminars organised by the various departments.





C. As these performance indicators show...

OUR KEY FIGURES PROVE THAT
WE HAD A TRULY BUSY AND
CHALLENGING YEAR IN 2004.

2004

Insurance Supervisory Authority's Income and Expenses Account

| | 2001 Financial statements ⁴⁾ | 2002 Financial statements | 2003 Financial statements | 2004 Financial budj. | 2004 Budgeted |
|---|--|---------------------------------|---------------------------------|----------------------------|------------------|
| INCOME | | | | | |
| Income from fee-charging operations | | | | | |
| • Sales proceeds from fee-charging operations ^{1),2)} | 3,811 | 4,320 | 4,531 | 5,121 | 5,580 |
| • Other income from fee-charging operations | 1 | 0 | 0 | 1 | |
| Income in total | 3,812 | 4,320 | 4,531 | 5,121 | 5,580 |
| EXPENSES | | | | | |
| Separate costs related to fee-charging operations | | | | | |
| • Materials, supplies and goods | 60 | 81 | 60 | 53 | 100 |
| • Personnel costs | 2,599 | 3,001 | 3,361 | 3,720 | 3,740 |
| • Rents | 454 | 579 | 522 | 583 | 650 |
| • Purchased services ³⁾ | 548 | 443 | 486 | 591 | 725 |
| • Other separate costst | 93 | 164 | 107 | 130 | 195 |
| Separate costs in total | 3,754 | 4,268 | 4,536 | 5,077 | 5,410 |
| SURPLUS/DEFICIT | 59 | 52 | -5 | 44 | 170 |
| Fee-charging operations' share of joint costs | | | | | • |
| Support functions' costs | | | | | |
| • Depreciation | 89 | 133 | 107 | 135 | 150 |
| • Interest | 21 | 23 | 24 | 20 | 25 |
| • Co-operation payments to State agencies and institutions | | 17 | 20 | 18 | 25 |
| • Other joint costs | | | | | |
| Share of joint costs in total | 110 | 174 | 151 | 173 | 200 |
| Expenses in total | 3,863 | 4,441 | 4,686 | 5,250 | 5,610 |
| Surplus (+) / Deficit (-) | -51 | -121 | -155 | -129 | -30 |
| Cost correlation, % | 98.7 | 97.3 | 96.7 | 97.5 | 99.5 |
| Investment expenses | 56 | 96 | 25 | 120 | 145 |
| Deducted items: | | | | | |
| • Depreciation | -89 | -133 | -107 | -135 | -150 |
| • Interest | -21 | -23 | -24 | -20 | -25 |
| • Change in holiday pay liabilities + additional costs | 4 | -59 | -47 | -94 | |
| • Depreciated sales losses | | -2 | 0 | | |
| • Rehabilitation based on State Employees Pensions Act ³⁾ | -1 | | -2 | | |
| Deducted items in total | -108 | -217 | -180 | -249 | -175 |
| Total gross expenditure | 3,812 | 4,320 | 4,531 | 5,121 | 5,580 |
| Surplus (+) / Deficit (-) | 0 | 0 | 0 | 0 | 0 |
| Cost correlation, % | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

¹⁾ 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

²⁾ 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

³⁾ Includes expenses on rehabilitation based on State Employees Pensions Act (sub-section 28.80.24) as follows: year 2001: EUR 1,396 and year 2003: EUR 2,018

⁴⁾ Supervision of Unemployment Benefits Enforcement as of 1 March 2001

Insurance Supervisory Authority's Income (EUR '000)

| | 2001 | 2002 | 2003 | 2004 |
|--|--------------|--------------|--------------|--------------|
| Supervising fees | 3,562 | 4,145 | 4,317 | 4,942 |
| Performances (Act on Criteria for Charges Payable to the State) | 249 | 175 | 214 | 179 |
| Other income | 1 | 0 | 0 | 1 |
| Income in total | 3,812 | 4,320 | 4,531 | 5,121 |

Income by Group of Supervised Institutions in 2004 (EUR '000)

| Group of Supervised Institutions | Supervision fees*) | | Performances (Act on Criteria for Charges Payable to the State)**) | |
|---|--------------------|--------------|--|--------------|
| | | % | | % |
| 1. Life insurance companies | 959 | 19.4 | 5 | 3.0 |
| 2. Non-life insurance companies | 952 | 19.3 | 20 | 10.9 |
| 3. Employment pension insurance companies | 1,181 | 23.9 | 10 | 5.5 |
| 4. Company and industry-wide | 505 | 10.2 | 64 | 35.7 |
| 5. Other employee benefit funds | 123 | 2.5 | 25 | 14.1 |
| 6. Pension institutions founded on the basis of law 31 | | 0.6 | 1 | 0.6 |
| 6.a. Local Government Pension Institution, State Pension Fund, Church Pension Fund | 108 | 2.2 | 0 | 0.0 |
| 7. The Central Pension Security Institute | 11 | 0.2 | 1 | 0.5 |
| 8. Local mutual insurance associates | 138 | 2.8 | 14 | 7.5 |
| 9. Insurance brokers | 120 | 2.4 | 16 | 8.6 |
| 10. Unemployment funds | 781 | 15.8 | 18 | 10.0 |
| 10.a. Unemployment Insurance Fund and Educational Fund | 15 | 0.3 | 0 | 0.0 |
| 11. Other supervised Institutions | 18 | 0.4 | 2 | 1.3 |
| 12. Retained and other earnings | | | 4 | 2.2 |
| Total | 4,942 | 100.0 | 180 | 100.0 |

*) The reported invoicing surplus has been taken into account as deduction

***) Retained earnings as deduction of joint expenses

Decisions, permits and certificates based on the Act on Criteria for Charges Payable to the State in 2000–2004

| | 2000 | 2001 | 2002 | 2003 | 2004 | Share % |
|---|------------|------------|------------|------------|------------|--------------|
| ISA + Ministry of Social Affairs and Health in total | | | | | | |
| Decisions on confirming or amending rules and regulations | 213 | 198 | 186 | 163 | 205 | 35.0 |
| Extracts from register and certificates | 195 | 180 | 190 | 161 | 159 | 27.1 |
| Decisions on insurance broker registration | 63 | 55 | 85 | 90 | 62 | 10.6 |
| 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 | 72 | 45 | 37 | 31 | 43 | 7.3 |
| Decisions on the confirmation of membership fees (unemployment funds) | | | 44 | 43 | 41 | 7.0 |
| Other permits and decisions on request | 52 | 34 | 55 | 55 | 37 | 6.3 |
| Decisions on the confirmation of insurance-technical bases | 55 | 70 | 53 | 56 | 25 | 4.3 |
| Decisions on the confirmation or amendment of articles of association | 23 | 22 | 156 | 23 | 14 | 2.4 |
| Total | 653 | 619 | 811 | 622 | 586 | 100.0 |

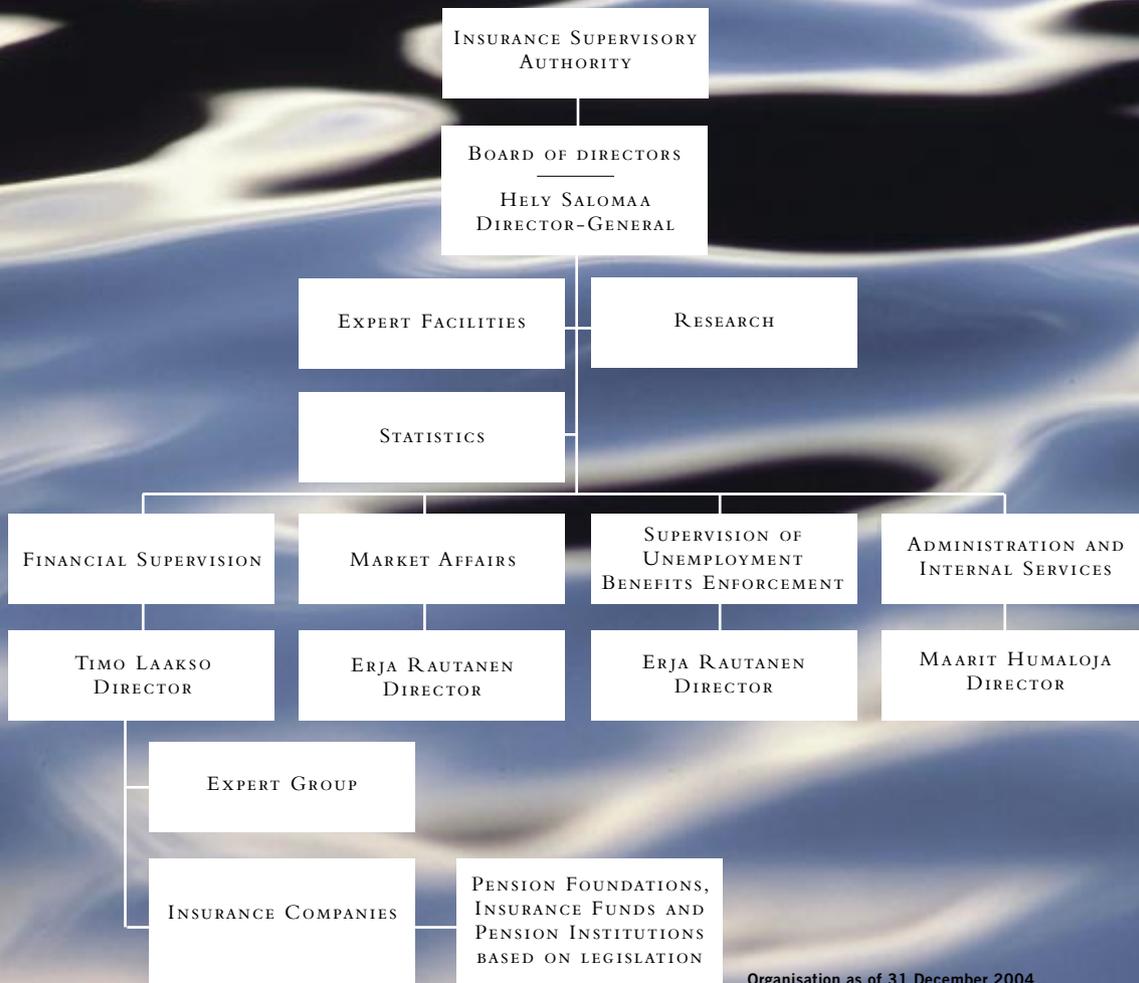
Expenses (EUR 1,000)

| | 2001 Actual | 2002 Actual | 2003 Actual | 2004 Actual |
|---|----------------|----------------|----------------|----------------|
| Expenses | | | | |
| Materials, supplies and goods | 60 | 81 | 60 | 53 |
| Personnel costs | 2,599 | 3,001 | 3,361 | 3,720 |
| Rents | 454 | 579 | 522 | 583 |
| Purchased services | 548 | 443 | 486 | 591 |
| Other separate costs | 93 | 164 | 107 | 130 |
| Separate costs in total | 3,754 | 4,268 | 4,536 | 5,077 |
| Share of joint costs | | | | |
| Depreciation | 89 | 133 | 107 | 135 |
| Imputed interests | 21 | 23 | 24 | 20 |
| Co-operation payments to State agencies and institutions | | 17 | 19,9 | 18,4 |
| Share of joint costs in total | 110 | 174 | 151 | 173 |
| Investment expenses (acquisitions of fixed assets) | 56 | 96 | 25 | 120 |
| Total expenses *) | 3,812 | 4,320 | 4,531 | 5,121 |
| *) Excluding depreciation, imputed interests, sales losses, change in holiday pay liabilities and rehabilitation based on State Employees Pensions Act, and including investments | | | | |
| Number of person-years: | 54.5 | 59.8 | 63.5 | 65.3 |
| Total expenses/person-year | 69.9 | 72.2 | 71.4 | 78.4 |

Income and Expenses Account

| | 1 Jan. 2004 – 31 Dec. 2004 | | 1 Jan. 2003 – 31 Dec. 2003 | |
|--|----------------------------|--------------------|----------------------------|--------------------|
| OPERATING INCOME | | | | |
| Income from fee-charging operations | 5,120,778.91 | | 4,530,654.57 | |
| Other income from operations | 90.30 | 5,120,869.21 | 251.95 | 4,530,906.52 |
| OPERATING EXPENSES | | | | |
| Materials, supplies and goods | | | | |
| Purchases during the accounting period | -52,686.48 | | -60,273.77 | |
| Personnel costs | -3,719,787.40 | | -3,360,993.70 | |
| Rents | -583,400.75 | | -521,687.79 | |
| Purchases services | -591,079.09 | | -485,513.46 | |
| Other expenses | -130,044.28 | | -107,287.33 | |
| Depreciation | -134,871.62 | | -106,722.43 | |
| Internal expenses | -18,356.83 | -5,230,226.45 | -19,878.06 | -4,662 356.54 |
| SURPLUS/DEFICT I | | -109,357.24 | | -131,450.02 |
| FINANCIAL INCOME AND EXPENSES | | | | |
| Financial income | 615.80 | | 242.60 | |
| Financial expenses | -110.43 | 505.37 | 0.00 | 242.60 |
| SURPLUS/DEFICT II | | -108,851.87 | | -131,207.42 |
| SURPLUS/DEFICT III | | -108,851.87 | | -131,207.42 |
| INCOME FROM TAXES AND OBLIGATORY FEES | | | | |
| Value added taxes levied | 721.62 | | 296.02 | |
| Value added taxes paid | -288,885.44 | -288,163.82 | -232,575.69 | -232,279.67 |
| DEFICT FROM THE ACCOUNTING PERIOD | | -397,015.69 | | -363,487.09 |

2004



Organisation as of 31 December 2004

D. Our expert organisation:
A safeguard for independent
Finnish insurance supervision.

Board of Directors as of 31 December 2004

Chairman

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

Vice Chairman

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

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 Supervision Authority

The ISA is a supervisory authority subordinate to the Ministry of Social Affairs and Health but with independent decision-making powers. We contribute to achieving the overall targets set by the Ministry in our own field. 2004 was the ISA's fifth full year in operation.

The ISA has a Board of Directors established by the Ministry. The Board members for the period 1 April 2002 - 31 March 2005 are shown above.

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

Deputy members

Matti Toiviainen
Deputy Director-General

Leena Väänänen, Senior Actuary

Pirkko Pohjoisaho-Aarti,
Deputy Director
Ilkka Harju, Legislative Counsellor

Heikki Koskenkylä, Head of Department

Timo Laakso, Director

The ISA is 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 function 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).

2004



INSURANCY SUPERVISORY AUTHORITY (ISA)

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Insurancy Supervisory Authority (ISA)

2004

ISSN 1795-0120

ISBN 952-5350-24-X

www.vakuutusvalvonta.fi