www.indoswissbusiness.com

INDO SWISS BUSINESS

The Newsmagazine of Swiss Business Hub India

Vol. 3 Issue 1 *Jan-Feb 2006*

member of business network switzerland

Scope Vast for Insurance Tie-ups

A Matter of Trust

In This Issue

Distributed by:
New Media Communication Pvt. Ltd.
in association with
Swiss Business Hub, India

Chairman: R. K. Prasad
Managing Editor: Satya Swaroop
Director: B.K.Sinha
Group Editor: Dev Varam
Consulting Editors:
Prabhuu Sinha, Rajiv Tewari &
Archana Sinha
Head-Busi. Dev. : Veerendra Bhargava
Asst. Manager: Anand Kumar
Account Asst.: Vrunda Gurav
Circulation: Jawaharlal

Art Director: Santosh Nawar
Visualizers: Maya Vichare & Sagar Banawalikar
Photographer: Bilal Khan

BRANCHES:
Kolkata:
Anurag Sinha, Branch Manager, A-7/1,
Satyam Park, 2nd Lane, Near 3A Bus Stand,
Thakurpukur Kolkata- 700 104
Tel: 098300 15667, 033-24537708
Email:anurag@newmediacomm.biz
Ranchi:
Dr. Shambhu Prasad, 22 Anjuman Plaza,
2nd Floor, Main Road, Ranchi- 834001
Tel: 0651-3095103, Telefax: 2246742
Pune:
Geeta Khaladkar, Regional Head,
Sahyog Apartments 508, Narayan Peth,
Patrya Maruti Chowk
Pune 411 030. Telefax: 020 24454642
Email: pune@newmediacomm.biz
Thiruvananthapuram:
Murugan, Branch Manager,
TC-27/1749(3), PERA - 70, Vanchiyoor,
Thiruvananthapuram
Tel: 09447555222, 0471-5540888
Email: murugan@newmediacomm.biz

Australia Office:
Bandhana Kumari Prasad, 129 Camboon Road,
Noranda, Perth, W.A. 6062 Tel: 0061 892757447
Email: bandhana@newmediacomm.biz

International Marketing:
G. Biju Krishnan
E-mail: biju@newmediacomm.biz

New Media Communication Pvt. Ltd.,
B/302, Twin Arcade, Military Road, Marol,
Andheri (E), Mumbai - 400 059 India
Tel: +91-22-28516690 Telefax: +91-22-28515279
E-mail: enquiry@newmediacomm.biz
www.newmediacomm.com

Printed & Published by
Satya Swaroop and printed at M/s Young Printers,
A-2/237, Shah & Nahar Industrial Estate, Lower Parel,
Mumbai - 400 013 and published from 101, Shivam,
Military Road, Marol, Andheri (E), Mumbai - 400 059.
Editor: Manisha Saxena

Relevant Internet site address
- Embassy of Switzerland http://www.eda.admin.ch/newdelhi
-Osec Business Network Switzerland http://www.osec.ch
-Switzerland Tourism http://www.myswitzerland.com
-General Information on Switzerland http://www.switzerland-in-sight.ch
-Investment in Switzerland http://www.locationswitzerland.ch

Office of the Consulate General of Switzerland
102, Maker Chamber IV, 222,
Jamnalal Bajaj Road, Nariman Point,
Mumbai-400 021 Tel: +91-22-2288 4563
Fax:+91-22-2285 6566.

Editorial

Dear Reader,

Greetings. The Swiss banking industry is universally acclaimed for its super-efficient services and its ability to maintain customer privacy. This remarkable Swiss characteristic is also reflected in other financial services, including insurance. Insurance is a big business in Switzerland, considering the Swiss obsession for security. Swiss companies have developed several innovative products and technology to deliver them. These Swiss firms are also looking at the world to explore business opportunities. At this juncture, India appears to be the right market for them. India, which had opened the insurance sector to foreign direct investment (FDI) a few years back with a cap of 26 percent, is expected to raise it to 49 percent. The current issue of Indo-Swiss Business covers the Swiss banking and financial services, with stress on insurance. The cover story is on the Indian insurance scenario and the vast scope it offers for joint ventures. Despite huge payouts towards claims on account of natural calamities, the Swiss insurance industry displayed remarkable resilience in 2005, with most companies posting good performances and the forecast for 2006 is that they could get better. We carry a report card from the Swiss Insurance Association. There is also a forward-looking assessment of the Swiss insurance industry by UBS Wealth Management Research, which predicts an overall premium growth in 2006. James Schiro, CEO, Zurich Financial Services, in a lecture delivered at the Swiss Institute of International Studies, underlines the potential that India and China hold for insurance business. With the acquisition of GE Insurance and Solutions, Swiss Re has emerged as the world's biggest re-insurer. Also the Swiss Insurance Training Centre (SITC), a foundation of Swiss Re, has been imparting training to insurance professionals drawn from across the world. We present separate reports. Swiss Economics Minister Joseph Deiss, who recently visited India and had extensive discussions with government and business representatives, says that small and medium enterprises (SMEs) have a key role in stepping up bilateral trade between India and Switzerland. Alastaire Guggenbuhl-Even, Founder and Managing Partner of BTS Investment Advisor, also strongly believes that SMEs will be the engines of India's future economic growth. The Swiss banks, which had done well in 2005, are expected to carry the previous year's mood of upswing into 2006. Also prospects for Swiss financial markets is quite bright in 2006. We carry two separate reports. Credit Suisse has turned 150 and is launching a new global brand as a matter of strategy. A one-day seminar held recently in Bern called for entrepreneurs to create "Made in Switzerland Brands." We carry a report on the Indian fiscal Budget for 2006-07, which lays stress on agriculture. We present two features on tourism, one on the heavenly Engelberg in Swizerland and the other on the lush green southern state of Kerala. All these plus other regular features.

Wish you happy reading

Satya Swaroop
Managing Editor
satya@newmediacomm.biz

Insurance offers vast scope for Indo-Swiss joint ventures

It's a Matter of Trust

By Dev Varam

And of course, it's also winning and retaining the client's confidence. That's the essence of any business, especially of insurance. That the Swiss excel in insurance business should not raise any eyebrows. They do in merchant and investment banking. Here again, their strong point is winning the customer's confidence and retaining it. Insurance is a financial service. Very much like banking, it calls for customized, client-specific service. And the Swiss do it better than any one. Because, in the end, all said and done, it should be profitable to both the insurers and the insured. Why does insurance business flourish in Switzerland? Because, the Swiss are a very security-conscious people. At close to US$ 6,000 per person, Switzerland is a world leader in terms of spending on private insurance. Over the years, Swiss insurance companies have developed a vast range of insurance products. They are keen on sharing their expertise with their counterparts in the rest of the world, especially in India. The Indian market is vast and untapped. In a country with a population of one billion people, a third of whom are rich, the issue of security and insurance is assuming more importance than ever before.

The Indian Scenario

In India, where insurance business has been a monopoly of the state, the government has initiated reforms to open it up to foreign investment and collaboration. Foreign Direct Investment in joint ventures in insurance is allowed up to 26 percent with a capitalization of Rs 1 billion ($20 million) Some Swiss companies have already entered the insurance sector in India taking advantage of this measure. These include the Zürich Insurance, Swiss Reinsurance, SGS Geneva etc.

The Indian insurance sector is likely to be further liberalized. Presenting India's fiscal Budget for the year 2006-07 (April-March) on February 28, 2006, to Parliament, Finance Minister P. Chidambaram expressed his intention to increase the FDI limit in the insurance sector to 49 percent. However, since this is a policy matter, the Government will decide the timing and the modalities. The Insurance Regulatory and Development Authority (IRDA) has already expressed its support for the proposed move. The government had also set up a committee to recommend a comprehensive law on insurance that could help develop the industry.

"The report of the committee has been received, and is being examined by the IRDA and the Government. I intend to introduce a comprehensive Bill on insurance in 2006-07," Chidambaram said, adding, "Important Bills to amend the banking laws and for setting up the Pension Fund Regulatory and Development Authority are before Parliament. I would urge Honourable Members to cooperate with the Government and pass these Bills," he added. All these measures are expected to give the much-needed boost to the insurance sector.

The insurance industry in India has progressed well since liberalization in the last five to six years, with many private players joining the foray. The customer confidence in the industry has grown. Today there are 15 life insurers, 14 general insurers and one reinsurer operating in the country. Of these, there are 14 private life insurers and eight non-life private insurers. The insurance industry has been able to maintain the double-digit growth for the fourth year in a row, which indicates that the industry is firmly placed on a long-term growth path.

Foreign Insurers To Step Up Outsourcing Budget

Despite recent strong results on both sides of the Atlantic, the majority of insurers continue to look to vendors to deliver IT and operational efficiencies rather than enable outright business growth. This highlights the work still to be done in terms of operational efficiency enhancement, in particular on the European side.

Insurers are looking to increase outsourcing spend significantly to 2008 with Datamonitor research showing that nearly a quarter of insurers are increasing outsourcing budgets. In individual services lines interest levels indicate a potential 50 per cent growth in take-up.

It is interesting to note that tier-1 institutions are significantly more open to using offshoring as a tool to improve infrastructure efficiency, with nearly a fifth of respondents indicating that sourcing is the primary means of creating an efficient IT infrastructure.

European insurers are far more positive to the role of offshore and outsourcing in infrastructure efficiency than their North American counterparts. While overall results are very similar on both sides of the Atlantic, European insurers that consider sourcing to be an option have a greater tendency to rate sourcing a primary efficiency driver.

BPO has been growing steadily in acceptance over recent years, with a greater proportion of insurers now using BPO than infrastructure or application outsourcing. BPO has particularly high acceptance in the insurance sector, where institutions have traditionally used more third-party sourcing in core business processes.

According to IRDA Chairman C.S. Rao, some of the areas that require greater attention are rural, social and health sectors. The penetration in these sectors is still low given the huge potential, he said in a recent press interview and IRDA will encourage insurers players to exploit it. Encouraging incentives should enable the insurers to increase penetration in the coming year, he added. Industry watchers expect the growth in the insurance

industry to come through increased insurance coverage and convergence and bunching of insurance products, which will spur market growth. "India is in the midst of demographic changes and a gradually increasing population of ageing people will demand annuities and pensions related products. Personalized lines of insurance will be the growth engines for insurance industry in the future. Insurance penetration is expected to rise to at least 5.0 percent in the next five years from the present 1.5 percent," Rao said. Every growing industry throws up challenges and in the csse of insurance, matching of asset/liability is an important challenge. "Low interest rates pose a great challenge to meet the shortfall between payouts and expected returns from investments. The industry has to develop advanced skills in this area," Rao said, listing some of them. These are: Upgrading underwriting skills of the underwriters, IT systems to retrieve and analyse data, ways and means to protect the policyholders, scientific and adequate pricing of covers, etc. "The insurance companies, especially in the public sector, need to gear up to face this challenge as they account for bulk of the business," Rao added. Precisely it is in the above-mentioned areas that foreign insurance companies, including those from Switzerland, have a role to play through joint ventures. "The industry has also to adopt best practices to be cost-efficient in their business operations. There has been a growing trend to outsource non-core functions. However, managing the relationship with external vendors can be quite a daunting and challenging task, Rao observed.

IRDA plans to bring about certain standardisation of insurance policies, product literature, and proposal forms aimed at increasing transparency and speeding up the time to market new products for insurance companies.

This will address a common complaint among insurance companies that their product pipelines are clogged because of regulatory delays in clearing new products. It will reduce the possibility of policyholders being misled into buying wrong products.

The regulator also aims to ban companies from talking of fund performance if the fund has been in existence for less than a year. This is aimed at preventing companies from annualizing short-term performance and projecting spectacular annualized gains. For instance, a company can claim to have made an annualized return of over 100 percent if a stock market boom pushed unit values by 15 percent in a month.

Liberalization has opened floodgates to foreign investment in the insurance sector, and brought in its wake, managerial ability, technical knowledge, innovation in products, higher productivity and bigger job pools. Since 1999, when the insurance sector was opened, insurance density has grown from Rs 280 to Rs 600 (per capita premium) and the annual premium has shot up from Rs 28,000 crore to Rs 63,000 crore.

Insurance deregulation has led to the expansion of product basket, availability of comprehensive risk coverage, development of trained sales personnel, spread of market awareness and creation of employment potential. Private insurers have cornered 25 percent of the market share, with their business posting a 60 percent year-on-year growth. Life insurance as a segment is growing at the rate of 24 percent.

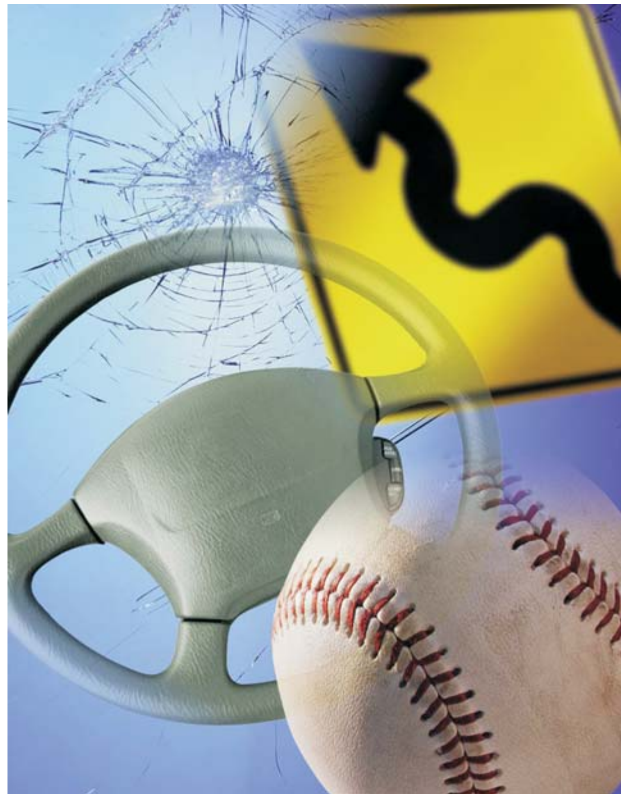
Max New York Life Insurance is one of the joint ventures that came into being soon after India opened its insurance sector to foreign investment. The firm is 74 per cent owned by health care and information technology company Max India Ltd and 26 per cent owned by New York Life International Inc, one of the biggest insurance players in the United States. "We see the life insurance potential in India as greater than any other country in the world," said Gary Benanav, chairman and chief executive officer of New York Life International Inc, at the time of the company's launch six years ago. "Over the next 10 years the penetration of life insurance in India will increase dramatically," said Benanav, whose company has more than $130 billion of assets under management.

With the entry of private insurers into the field, the state-run giant Life Insurance Corporation of India (LIC) has woken up. It has promptly upgraded its systems, embraced actuarial prudence, and introduced more modern products and with drawn products with inherent guarantees.

There are no official estimates of India's insurable population, but industry estimates put it at about 400 million, more than three times the 115 million people insured by state-owned giant Life Insurance Corporation (LIC). India annually spends some 0.3 per cent of its GDP on life insurance compared to the more than 3.0 per cent spent by Taiwan and between 4.0-5.0 per cent spent by the United States.

In India, both life and non-life insurance business is dominated by state-run companies after these businesses were nationalized and formed into two organizations - the Life Insurance Corporation (LIC), formed in 1956 and the General Insurance Corporation (GIC) in 1973.

LIC has since built up a vast network of 2,048 branches, 100 divisions and seven zonal offices spread across the country. General insurance business too has grown in spread and volume. The four companies of the state-owned General Insurance Corporation (GIC) have 2699 branch offices, 1360 divisional offices and 92 regional



offices spread all over the country.

Globalization of Indian insurance has brought opportunities for actuaries, who are already in short supply in the country. These qualified people are finding new and better opportunities in international companies. Actuaries, who are professionals specialized in forecasting future liabilities and assessing assets required to meet them. In India, professionals gain this qualification by clearing examinations conducted by the Actuarial Society of India.

On the one hand a rise in relocation of back office processing by multinational insurers is generating demand, on the other hand their qualification is being increasingly recognized by overseas insurers. As a result of demand-supply gap, the actuaries with some experience are being offered as much as Rs 15-20 lakh per year by the foreign insurers.

In order to further fuel the spread of insurance country-wide, a higher rate of overall economic growth is needed, which will create more jobs and gives India greater access to global insurance expertise and mobilize capital for investment. Of course, the 26 percent cap on insurance in terms of foreign holding, has to go and most likely will go soon. While banks are allowed a cap of 74 percent there is no cap on mutual funds. ■

Swiss Insurance industry performance in 2005

Good & Getting Better

That was what business had been for Swiss insurance companies in 2005 - good to very good. It will only get better in 2006 if things go their way and not against, as had happened in 2005. Although natural catastrophes caused record losses to private Swiss insurers in 2005, the year was on the whole had been satisfactory for the industry, according to the Swiss Insurance Association (SIA). In an annual review of the industry performance, SIA said, "Private Swiss insurers are in good shape. We expect to see good to very good results when insurers present their 2005 figures over the coming months.

SIA said insurers were able to further improve the underlying business and shore up their equity bases during 2005. A premium growth of less than 3.0 percent in indemnity insurance was offset by a 6.0 percent decline in life premiums. "Their ability to deal with record losses caused by major storms in August 2005 is testimony to their financial strength and economic significance," SIA pointed out.

Despite a challenging political and regulatory environment, coupled with low interest rates, the upward trend in industry results continued, SIA said, adding, "Underwriting discipline and continued strict cost management provided further efficiency gains and generated notably better underwriting results for numerous companies."

According to SIA estimates, premium volume for indemnity insurance rose by 2.7 percent in 2005. Some lines of business, such as motor insurance, were forced to correct premium levels upwards on the back of increasing claims. The figures for life business were mixed: whilst individual life insurance posted growth of 1.3 percent, group insurance (company pensions) declined by 8.4 percent compared to the previous year.

The review has called for several measures that could help boost the Swiss industry's performance in the future. Excerpts.

Ensuring that company pension schemes are sustainable in the long-term will require further structural changes. The current phenomenon of covert redistribution from the working population to pensioners has to end. This calls for prompt adjustment of the conversion rate. The minimum rate of interest also needs to be revised. Furthermore, the plethora of legal requirements imposed on occupational pension fund managers is stymieing competition. Realistic parameters and less red tape are necessary to win back the confidence of insureds.

Liberalisation of accident insurance

Private insurers account for more than 70 percent of compulsory occupational accident insurance business. The SIA therefore attaches great importance to the planned overhaul of the Accident Insurance Statute. It is essential that the liberalisation of accident insurance, which began with the lifting of joint pricing arrangements, continues so that a real competitive environment can be created. The SIA further advocates a clear statutory ruling on the future role of Suva (Swiss Accident Insurance Fund).

Outlook for 2006 good

The outlook for 2006 in the domestic market is good. Two areas of focus will be the need for action in company pensions and a review of current natural peril insurance models, which may need to be developed further. One core element of this will be the provision of cover against earthquake losses. The sector will also be busy implementing the revisions to the Insurance Supervisory Act (VAG) and attendant solvency regulations, as well as the amendments to the Insurance Contract Act (VVG). In addition, the SIA and its member companies shall be examining in more detail the issue of rising bodily injury claims.

Need for a feeling of security

Needing to feel secure is one of man's most basic needs. Life means exposure to risks and hazards which can threaten one's health, life and property. That is why man has always sought to "protect" himself against life's uncertainties through insurance. Life without insurance in the industrialized countries is hardy conceivable any more. The Swiss people are a very security-conscious people. At CHF 7,109 (USD 5'716) per inhabitant, Switzerland was the world leader in 2004 when it comes to expenditure on private insurance (excluding social insurance). ■

Record claims cut into Swiss Re's '05 net profit

Swiss Re has reported a net income of CHF 1.5 billion for 2005. In a year characterized by record natural catastrophe events, the underlying business performed well, including an excellent return on investment of 5.7 percent.

Jacques Aigrain, Swiss Re's Chief Executive Officer said: "2005 has been a year of contrasts. Swiss Re has benefited from its well diversified business to absorb an unparalleled sequence of exceptionally large natural catastrophe events."

In 2005, Swiss Re digested CHF 3.0 billion in large natural catastrophe claims, up from CHF 1.2 billion in 2004. The combined ratio for Swiss Re's entire non-life business was 108.7 percent. Premiums earned declined 6.0 percent to CHF 27.8 billion, as Swiss Re continued to focus on profitability rather than volume growth. The investment result increased 11 percent to CHF 6.6. billion, achieving an excellent 5.7 percent return on investment.

The increased impact in 2005 of natural catastrophe claims, after releases from equalization reserves, was CHF 1.1 billion after tax. Net income was CHF 1.5 billion compared with CHF 2.5 billion in 2004. Despite the largest claims on record for natural catastrophe events, shareholders' equity increased 20 percent to CHF 22.9 billion, underlining the benefits of Swiss Re's large and well diversified business. Reflecting both lower net income and increased shareholders' equity, return on equity declined to 6.7 percent.

Underlying business performing well despite large NatCat events

The performance of the Property & Casualty business reflected the extraordinary year for natural catastrophes claims. Consequently, the operating income declined to CHF 1.0 billion. Premiums earned declined 11 percent to CHF 16.4 billion. The reduction in volume was due both to Swiss Re's actions to cut business not meeting its pricing requirements as well as to clients retaining more of their business in 2005.

The Life & Health business increased its return on operating revenues to 9.6 percent. The operating result increased by 9.0 to CHF 1.3 billion, benefiting from continuing good mortality experience. Premiums earned grew 3.0 to CHF 10.5 billion, reflecting lower growth in the mature markets and strong growth in Asia.

Swiss Re's excellent investment performance was achieved across all asset classes. Overall the investment result increased 11 percent to CHF 6.6 billion, with strong returns from the fixed income portfolio and a 12 percent increase in net realized gains on both the fixed income and equity portfolios.

Outlook: Swiss Re affirms its targets

Swiss Re affirms its targets over the cycle: it expects to achieve earnings per share growth of 10 percent per annum and a return on equity average of 13 percent over the cycle.

As 2005 has proven, size and diversification are crucial for absorbing insurance risk volatility. With the acquisition of GE Insurance Solutions, Swiss Re will become the largest and best diversified reinsurer, building on an excellent base to sustainably growth earnings.

Dividend increase by 56 percent

The Board of Directors will recommend to the Annual General Meeting on 21 April 2006 a 56 percent increase in dividend to CHF 2.50 per share, reflecting the Group's financial strength and the Board's confidence in Swiss Re's future earnings. ■

Insurance in 2006 UBS predicts overall premium growth

Christian Frey

Switzerland has the highest insurance density in the world. Per capita expenditure on direct premiums comes to around CHF 7,500 a year, excluding the various social security contributions and reinsurance, but including corporate insurance outlays. This number is more than 40 percent higher than in the UK - which is traditionally regarded as an important insurance country - and nearly three times higher than in Germany.

For the 216 insurance companies that were subject to federal supervision as of end-August, and which employ some 40,000 staff in Switzerland, the Swiss market is nevertheless only one of several mainstays of their business.

According to the latest data available from the Swiss Insurance Association, Switzerland accounted for only 28 percent of total premiums received (CHF 55 billion), with the EU and North America having become more important markets with more dynamic growth prospects for the large groups.

However, there are marked differences between the various business lines as far as globalization is concerned, and these differences are all the more pronounced from one company to another: Life insurance firms generate around half their premium volume abroad, compared with three quarters for property/casualty insurers and some 94 percent for reinsurers. There are only a few business lines that focus entirely on domestic clients, such as health insurers and social security providers.

Recovery trend unaffected by high claims

After a protracted phase of difficult business conditions characterized by pressure on premiums, mounting claims payments, book losses on investments and meagre interest income, the sector has been staging a recovery over the past two years. Better risk management, internal rationalization measures, greater acceptance for premium increases, a realignment of investment policy and - in the case of life insurers and pension funds - adjustments to the minimum interest rate and conversion rate, have brought the earnings of companies in the sector back to a satisfactory level.

Although the frequency and dimensions of natural catastrophes (hurricanes in the Gulf of Mexico, floods in the Alps) again adversely impacted the accounts of property insurers and reinsurers. According to our survey of 56 companies of various size and business focus, the insurance year was otherwise characterized by expansion at virtually all levels. There was even a slight increase in headcount after several years of erosion.

For 2006, the insurance companies surveyed by UBS expect premium growth to remain good overall, driven by demand and also supported by higher rates, while earnings are forecast to make a clear recovery coupled with a substantial improvement in underwriting results. The latter is based primarily on the assumption that the extremely high level of claims will not be repeated.

An upturn is envisaged not just in the property/casualty and reinsurance businesses - which hope to make good last year's setback - but also in the life insurance segment. In the latter, the anticipated increase in demand will remain limited, with insurers having halted the erosion last year, but the recent adjustments in premium rates and conditions are taking effect and the outlook for benefits remains manageable.

However, the respondents have no illusions with regard to investment earnings: these contribute significantly to their overall results, but the forecasts for 2006 are mainly on the down side. The persistently low level of bond yields in particular poses considerable difficulties for the life insurance business.

Author Chriestian Frey is working with UBS Wealth Management Research

Potential untapped in India, China

Insurance helps emerging markets to globalize

James J. Schiro, CEO, Zurich Financial Services, in a speech delivered recently at the Swiss Institute of International Studies, Zurich, on the theme - Asian Challenges: The Balance between Opportunities and Risk - outline the role of insurance in emerging markets and highlights the benefits to both global service providers and local stakeholders. Schiro concludes with an assessment of the situation in China and India. Excerpts:

In some way, my talk is about development. I will focus on two of the emerging powers in Asia, China and India, and the desirability of their integration into the global economy. I will look at both countries from the practical point of business, more narrowly, from the insurance business, and I will place my remarks within the context of the broader financial sector development.

In doing so, I am mindful of the social contributions made by private enterprises. In creating values for customers, employees, and shareholders, businesses meet their social responsibility and make their contributions to the public good. This is the human face to market-based or capitalist economies, a human face that can also be seen in developing and emerging market economies.

Since the days of Adam Smith we know that a reliable way to make the self-interest of businesses serve the public interest is for economies to become open, market-oriented, and subject to competition. Open and competitive environments force firms to be innovative, to keep down costs and prices, and to be responsive to customer demand.

Good Governance & Role of insurance

Of course, the success of capitalism is not only based on the self-interest of business. It also depends on a complex value system that includes reliability, trust, and honesty. In short, the success of market economies depends on good governance. In advanced economies, rules and institutions have emerged that are seen as conducive to development. By engaging in mutually beneficial transactions, multinational businesses are contributing to the spread of these values, which strengthens the framework in support of growth and prosperity.

I would now like to discuss the role of insurance in society. The desire to protect one's assets and mitigate risk is universal. Households and businesses need a degree of planning certainty to engage in activities that may entail risks. Insurance allows them to manage risk better and assume more of certain risks. Since there is no reward without risk, both individuals and firms will eventually benefit from the higher income associated with risk.

Tsunami & Kashmir Quake

This applies also to developing countries where loss prevention and loss protection assume vital importance. Last year's catastrophes in Asia painfully reminded us of the vulnerability of societies in which insurance has yet to play the role it does in advanced economies. Of course, the human toll and the economic losses caused by the recent earthquake in the Kashmir and the tsunami at the end of 2004 can never be captured by statistics alone. In the case of the tsunami, for example, insured losses of $5 billion were only a fraction of the total economic loss, which does not even attempt to include the human suffering caused by the loss of an estimated 280,000 lives. But one thing is nevertheless certain: the people on the shores of the Indian Ocean were woefully under insured.

Although the impact of under insurance was mitigated by contributions of $13 billion from private donors, aid agencies, and foreign governments, the fact is that, in the absence of charitable donations and insurance, the costs of rebuilding the area destroyed by the tsunami are crowding out resources that could have been used for the build up of critical infrastructure with stricter building codes and catastrophe shelters.

This is not to blame the people. The lack of insurance is in large part a reflection of underdevelopment. But insurance could have made a difference, and that is why it is vital that the insurance sector is developed in these regions.

Let me hasten to add that this is not an easy task. For private insurance to be offered, the conditions of insurability such as assessibility and randomness of expected losses have to be met. In addition, insurers have to be able to charge a premium that is large enough to cover the costs of doing business, including a competitive return on the capital invested. Finally, insurability cannot be divorced from the institutional framework that ensures the functioning of markets, and the point relevant in this context is the certainty of contracts.

Agenda for Development

This defines an agenda for development. For private insurers to play a meaningful role in emerging economies, the institutional framework to enable functioning markets must be erected, contract certainty has to be guaranteed, and the economies have to reach a stage of development that will allow for profitable pricing in a competitive environment. This will take time. Meanwhile, risk management activities and measures to mitigate catastrophic risks should become integral to any official development strategy, and I believe that there is room for private and public sector cooperation in promoting the goals of development.

This is particularly true in Asia where many if not most countries are exposed to natural catastrophes. More than half of Asia lives in well-known earthquake zones or in coastal areas where densely populated areas like Bangladesh are in flood planes. According to statistics collected by Swiss Re, between 1994 and 2003, and thus before tsunami and the earthquake in the Kashmir, China and India accounted for 25 percent of the global economic losses from natural catastrophes and for 31 percent of all fatalities. Yet, insurance compensation to the people in these two countries was minimal. It amounted to less than one percent of global insurance payments over the same period, whereas in industrialized countries, nearly half of the economic losses arising from catastrophes are covered by insurance.

Need for a sound financial sector

Clearly, the most important contribution to the development of the insurance sector will have to be made by the countries themselves. Their first priority must be to develop and maintain a stable financial sector. This in turn depends on stable financial markets that are also deep enough to generate the necessary capacity for the transfer of risk.

Let me illustrate this with a brief recap of recent financial crises and their impact on the insurance sector.

The Asian crisis of 1997, but also Mexico's Tequila crisis of 1995, and Argentina's default in 2001, destroyed much capacity, which is a short expression for the ability of insurers to assume risk. The primary reason is that financial crises impair the invested assets of insurers, while rising losses of policyholders drive up claims and increase the insurers' liabilities. For these reasons, the balance sheet of insurers weakens, and it is easy to see why they can become insolvent and lose their capacity to mitigate risk.

It follows that in order to make insurers in emerging markets less crisis-prone, the countries themselves have to be less crisis-prone. To do so, macroeconomic stability must go hand-in-hand with measures to improve the financial strength of insurers and the introduction of products designed to withstand financial stress. Above all, this requires technical competence, sound underwriting, prudent reserving, as well as sophisticated asset and liability management. Again, foreign insurers can make important contributions in fostering the skills necessary to introduce these activities to emerging markets. But ultimately, the skills must be developed locally on the strength of native institutions. Insurance capacity building must begin at home.

Integration into global economy

The development of a strong insurance sector in emerging markets can only be the first step toward their integration into the global economy. Indeed, the record of failure and success in developing countries shows that the integration into the open markets of the global economy is vital for sustainable growth and the reduction of poverty. Doubters should compare the radically different fates of open Thailand and closed Burma, for example, or South Korea and North Korea. That is why I would like to discuss now the importance of a market-friendly development based on openness to trade and foreign investment.

Triggered by the Latin American debt crisis in the 1980s, a consensus about the importance of a market-friendly development has emerged which, all in all, has produced good results. It is important to see that "market-friendly" does not rule out government action. On the contrary, there is a very specific role for the public sector. As the World Bank wrote in summarizing the consensus in 1991, governments should invest in people, improve the climate for business, open the economies to international trade and foreign investment, and get the macroeconomic policy-mix right.

Further refinements of the market-friendly development consensus, mainly under the influence of the Asian crisis of 1997, include also the call for strong prudential supervision and regulation. Much has been achieved since 1997 in providing for more transparency, but also in creating and strengthening the institutional framework for a sound financial sector development. At the same time, it is encouraging to see that regulatory standards developed in industrialized countries are being widely adopted in emerging markets.

Nevertheless, East Asia is still far removed from having an efficient financial market that can serve its region well. Trade financing and financial intermediation continue to rely mainly on the capital markets of the United States and Europe. But local savings should flow directly into local investments without having to make an inefficient detour through New York, London, or Zurich. This requires further progress in overcoming the region's inward-looking bias. At some time, foreign investment banks and insurers with a global perspective will push the financial sectors in East Asia toward integration. But this endeavor cannot succeed unless local institutions are prepared to do away with current barriers to trade and investment.

An untapped potential

Now let me return closer to my business and the role of insurance in emerging markets. In the light of the underdeveloped state of insurance in these countries, it is clear that emerging markets are likely to provide an excellent business proposition for global insurers prepared to invest in them. Not only do these countries grow rapidly, demand for insurance products tends to grow even faster, outpacing growth in the markets of our advanced economies by a 3:1 ratio approximately.

The reasons for this rapid demand growth are easy to see: rising incomes generate a growing demand for risk mitigation and asset protection. This is particularly true for life insurance products, which are seen as a substitute for saving and absorb parts of the high savings typically associated with emerging markets in Asia. But demand is also high for non-life products. As I pointed out earlier when talking about natural catastrophes in Asia, there are still many unmet needs in this disaster-prone region.

In addition to the natural demand pull arising from population and income growth, deregulation, liberalization, and privatization will also contribute to the growth of Asian markets. In privatizing former state-owned insurers and opening up domestic markets for foreign competitors, developing countries are implementing the market-friendly agenda I talked about earlier. Allowing for the transfer of industry-specific knowledge and capital will in turn speed up the development of a strong insurance sector. Latin America and the markets recently liberalized in Central Europe have already traveled a long distance on this route, and I trust that East Asia will soon follow.

The growth potential in emerging markets is bound to complement the more subdued prospects in the highly saturated markets of the industrialized countries. Global insurers share this experience with their corporate customers who either already have or are about to set foot in emerging markets. However, the desire to offer seamless service to our global customers is not the only reason for an expansion in emerging markets. Increasing our presence in these markets, which by and large offer risk and loss profiles that differ from our traditional markets, is one way to improve the quality of our portfolio and better diversify our risks. Clearly, the promise of emerging markets is high, and our industry must be ready to develop their potential.

India & China

This brings me to China and India. Rather than recite a familiar litany of strengths and weaknesses in the two countries, I would like to make a few general observations.

There is no doubt that the factor behind the rapid growth common to both countries is a commitment to the essentials of the market-friendly development described earlier. It is remarkable, and speaks for a certain pragmatism, that in China elements of open markets co-exist with the authoritarian rule of the communist party. Obviously, Deng Xiaoping's famous quip still applies: it is not important whether the cat is black or white, important is that it catches mice. India too is now embarked on market opening. Although slower than in China, the seeds of liberalization are spreading across the Indian subcontinent.

Indeed, the commitment to open trade is a salient feature of the development seen in East Asia. Countries like South Korea or Taiwan prospered by exposing their industries to the competition of global markets. To be sure, their competitiveness was enhanced at times by an undervalued exchange rate, a point we can also make in the case of China. But there is a limit to the harmless accumulation of currency reserves, and capital markets will eventually force an adjustment.

China's Early Lead

Common to the development in East Asia is also an investment in human capital and social services, predominantly health care. In these areas, China has taken an early lead, virtually wiping out illiteracy and making a significant effort to provide limited health care for the population well before the onset of market reforms. It is perhaps an irony of history that the measures were implemented under Chairman Mao. Thus, the anti-capitalist and idol of the Red Guards laid the foundation for the market-friendly development and rapid growth seen in the last 25 years.

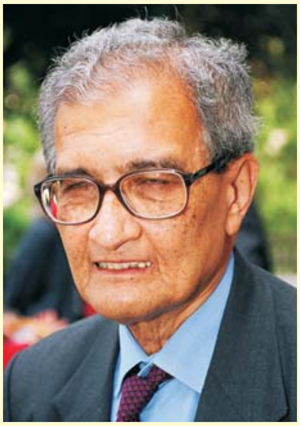
In contrast, India's illiteracy rate still hovers around 50 percent, and access to public health care continues to be limited. These deficiencies go some way in explaining why India has yet to see stronger benefits from the deregulation and market opening implemented beginning in 1992.

But the commitment to transparent markets continues to be limited in China and India. Corporate governance is underdeveloped to say the least; both countries rank toward the bottom in a governance index prepared by the World Bank. In fact, according to the World Bank, China has lost ground in the last five years, while India appears to have gained ground.

In China, the virtual absence of corporate governance and the peculiar mix of markets and authoritarian rule have led to severe inefficiencies. The four largest state-owned banks are insolvent by Western standards, and the Chinese banking system is burdened with a high share of non-performing loans. Depending on who is collecting the data, this share ranges from 20 percent to 40 percent. More important, however, is that this banking system has generated an inefficient allocation of capital. If we take Beijing's statistics at face value, the Chinese have channeled between 40 percent and 50 percent of their national income into fixed investments. This is an extraordinary share. In fact, it is about double the share of business investments seen in India. Yet, at 9.0 percent, China's GDP growth is not substantially higher than the 7-8 percent growth achieved by India. Clearly, India appears to enjoy a more efficient capital allocation. This raises the question whether India's future growth will eventually be more sustainable than China's.

Development and freedom

There are good reasons to assume that different expectations about the sustainability of the growth performance in India and China are related to differences in their political systems. Amartya Sen, the Indian-born winner of the 1998 Nobel Prize in Economics, once famously remarked that there are no famines in democracies. He pointed out that India has not seen a famine since its independence in 1947. In contrast, about 30 million Chinese died in the late 1950's in the wake of the horribly ill-conceived "Great Leap Forward."



Sen's point goes deeper. His argument is that democracies are more resilient in the face of adverse developments because their economic policies can be more flexible and their public policy more responsive to social needs. Indeed, political leadership has always been contingent on innovations that make countries more resilient. This democratic resilience appears to be lacking in China.

In contrast, India has a record of stability in democracy. The Swiss in particular should appreciate that the Indian subcontinent with more than 30 languages, 1,500 dialects, and six major religions has been capable of holding together since its independence more than 50 years ago while implementing economic reforms.

In this situation, businesses may find themselves between a rock and a hard place. They can choose to invest in India, where they will find a fairly recognizable business environment with a well-established rule of law, but where decisions tend to be stifled by bureaucracy. Or they can go to China, where there may be less red tape and more economic dynamism, but where they will be confronted with deficiencies in corporate governance and a lack of contract certainty.

Clearly, India and China must continue to travel on their long road toward sustainable development. In the end, what counts is the freedom that successful development will entail. As Amartya Sen wrote: "Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states."

This agenda deserves our support. It describes the human face of development. The post-war growth in East Asia demonstrates that a market-friendly development in partnership with global corporations can be successful. I trust that our industry will continue to make its contribution to the fundamental humanity of prospering market economies. ■

After taking over GE Insurance & Solutions...

Swiss Re, now the world's Biggest

Swiss Re will soon become the world's largest life and health reinsurer, with the takeover of the Insurance division of General Electric. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863.

Swiss Re has announced that it will take over the insurance division of General Electric to become the world's biggest reinsurer. The firm purchased American group GE Insurance Solutions for $6.8 billion (SFr 9.01 billion).

The GE insurance division is the fifth largest reinsurer worldwide, with total assets of $41.5 billion. This does not include the United States company's life and health business, which are not part of the deal.

The company will pay cash, shares and convertible securities for Kansas-based GE Insurance Solutions, and General Electric, the financial and media conglomerate, will own more than 10 per cent of Swiss Re's stocks following the sale.

The regulatory and antitrust approval process for the acquisition of GE Insurance Solutions is progressing towards closing by midyear 2006. The financing for the transaction received shareholder approval at the Extraordinary General Meeting on 27 February 2006.

In a statement, Swiss Re estimated that the transaction would give the company combined revenues of SFr46 billion and assets of SFr265 billion.

"This is both strategically and financially a very attractive transaction that creates significant value for our shareholders," said John Coomber, Swiss Re CEO.

Richard Schreuder, an analyst at Barclays in London said in press interview that Swiss Re would benefit from the deal. "Swiss Re is not in a bad financial situation, but they have been struggling when it comes to growth in earnings and profits and this deal is potentially a source of further growth for them," he said.

Schreuder said that there was room for consolidation in the reinsurance industry and one of the benefits for the companies involved is a more diversified portfolio. However, the company said earlier this month that claims for this year's extraordinary hurricane season in the US would mean the concern would not meet its profit target of 10 percent earnings per share. It added at the time that it would have to use "equalisation reserves to mitigate part of the claims". ■

A Global Centre to Impart Insurance Skills

The Swiss Insurance Training Centre (SITC), a foundation of Swiss Re, is dedicated to the training of insurance professionals at various career levels from all over the world. Since the SITC opened its doors in 1961, more than 5,400 participants from 134 different countries have attended its residential courses to enhance their knowledge and skills.

New knowledge horizons

The participants can choose between SITC's Management Development Programme or the Technical Skills Programme. While the Management Development Programme provides a vast range of knowledge in both technical and managerial practice areas, the Technical Skills Programme targets those who wish to develop or extend their expertise in specific insurance practice fields. Our lecturers contribute to this intellectually inspiring learning environment with their special expertise, based on their daily involvement in the global insurance business. In addition, SITC offers an "On Wings Programme", bringing its expertise right to its clients' doorstep. Today, SITC is one of the leading, most innovative insurance training centres.

True multicultural set-up

Every year, more than 250 insurance professionals attend SITC's residential courses in Zurich. The Centre addresses an international audience with different cultural backgrounds, representing many markets and an array of professional know-how, thus making the experience at its training centre a truly global one.

Logistics

The apartment building, just a ten-minute walk from SITC offers participants 36 comfortable studios and a large common room with kitchen, satellite-TV and stereo equipment, allowing students to deepen personal contacts during off-hours. The guests are well taken care of by the Centre's 14-team, representing seven nationalities and speaking eight languages. SITC provides a truly multicultural service. ■

SMEs
have a strong role in Indo-Swiss bilateral trade

Joseph Deiss

Swiss Economics Minister Joseph Deiss has said that Switzerland is interested in being a partner for Indian companies seeking to invest in his country, especially in services and high-tech manufacturing sectors.

“Both countries are interested in cementing and pushing forward their economic ties,” Deiss said at a press conference after his meeting with Minister for Commerce and Industry Kamal Nath in New Delhi before concluding his visit to India recently.

Deiss said he would expect that small and medium enterprises (SMEs) would soon play a better role in Indo-Swiss bilateral trade.

Kamal Nath agreed and said, “I have asked Deiss to work out a visit of a Swiss SME delegation which the Indian government will help to organise.

He said India had abundant skilled workforce and Switzerland had the technology, “So it's a win-win situation for both countries,” he added.

At a lunch hoisted by the Federation of Indian Chambers of Commerce and Industry, Deiss emphasised that he wanted investments to flow both ways, not just from Switzerland to India. "We also need to keep jobs in Switzerland, therefore we welcome Indian direct investment in our country” he added.

Deiss said the Swiss businessmen who had accompanied him had gained useful insights into doing business in India.

"They have certainly been able to have a lot of insights and contacts to do better business and understand the way the Indian economy is working and growing and identifying where the opportunities are," he said.

Alexandre Jetzer, representing the Swiss pharmaceutical concern Novartis, was probably speaking for many others when he said India had still to cut red tape.

"We congratulate the Indian government on meeting its commitment to introduce product patents in the face of several challenges and would like to impress upon it the urgent need for further reforms to make India the place for research-focused companies to do business," he said.

Although there is close cooperation between Switzerland and India at the World Trade Organization (WTO), two thorny issues remain: agriculture and industrial tariffs. In a nutshell, Switzerland has high tariffs in agriculture, whereas India has high tariffs in industry.”

"It's a perfect situation to make a good deal because both can win. We have common interests in services. India is now a strong fighter in favour of a serious result on services [at the WTO]," Deiss said.

As to his own impressions of the country, Deiss said there were in effect two Indias: one developed and prosperous, the other still lagging behind.

"That means we have the traditional sectors of industry where people live in very poor conditions, yet on the other hand there are growing and very efficient modern enterprises, which are among the best in the world”.

Deiss said the challenges ahead were enormous. "If you think that India has 150 times the Swiss population you can measure how huge the task is and how much effort is still needed.” ■

SMEs - Engines of India's Future Growth

Alastair Guggenbuhl-Even

Since Alastair Guggenbuhl-Even, Founder and Managing Partner of BTS Investment Advisor, launched his company in 1996, the investment climate has changed dramatically in India. Talking about the future scenario in an interview with Satya Swaroop, Guggenbuhl says that Small and Medium Enterprises (SMEs) will act as engines of economic growth in India.

You founded BTS in 1996 and BTS was among the first investment companies to operate in India. What kind of changes the Investment climate in India has undergone in the last 10 years? Have these changes been conducive to the growth of investment and venture capital funds?

The end of the nineties was still dominated by some political incertitude caused by the nuclear conflict. Following the consolidation in the IT industry early 2000 and the increasing political stability after 9 / 11 combined with a clear political direction by the Indian Government, the investment climate has changed dramatically. The effects of the continued forward movement on liberalization and economic reforms will continue in the future and continue to a further boost the growth of investments in general and of venture capital funds in particular. What we can also see in parallel is the increasing competitiveness of Indian companies on a global level.

What have been the highpoints of BTS operations in India so far? What areas you have identified as the most promising?

There were many highlights in the last 10 years. However, I would like to mention three: The first big highlight happened in the year 2000 when BTS Investment Advisors became the responsible investment advisor of the Swiss Tech Fund. The next highlight was the extraordinary development of this fund: we could not only generate excellent returns for our investors. In addition we also created a strong impact on the overall Indian economy: the 13 companies in which we had invested USD 12.6 mio end of March last year generated revenues of USD 221 mio in employing more than 8'000 employees. Our investments contributed to create more than 3'700 new jobs. The third highlight of the last 10 years will happen in a few weeks time when we will have the first closing of the Swiss Tech successor fund the BTS India Private Equity Fund II. What areas have we identified as the most promising? This is a very difficult question as we are very positive on India in general. However, we strongly believe in the SMEs and see great potential in this area.

Some time back, at an event co-hosted by BTS in Zurich, Indian Finance Minister P. Chidambaram identified infrastructure as the crucial area where investment was needed most and put the total requirement at $150 billion.

What has been the follow-up by the Swiss banks/investment companies in general and BTS in particular?

We know of Swiss investors that are looking for investments opportunities in the infrastructure area. Furthermore, Holcim continues to invest strongly in the Indian market.

One of the most promising investment areas in India is the Small and Medium enterprises (SME) segment, which requires funds by way of equity. What has been the BTS role in funding SMEs?

The Swiss Tec fund is focused on investing in SME companies. Those investments generated excellent returns for our investors and also contributed strongly to the overall economic development of India as mentioned above. We have been closely associated with Indian SME sector for last several years and this has given us unique advantage in understanding the key successfactors to excell in this promising sector. Two of the portfolio companies of Swiss Tec were recently confered as best SMEs in their respective fields by the ICICI CNBC 18 Emerging India Awards.

BTS manages Swiss Technology Venture Capital Fund. Please give us details of this fund's investments and successfully exits?

As of December 31, 2005 Swiss Tec invested INR 726 million in 18 portfolio companies which are in diverse sectors including Pharmaceuticals, Textiles, Engineering, Speciality chemicals, IT services, Packaging, Shipping services, food processing and horticulture. The Fund has exited completely from 7 investments with an overall IRR of 20%. The exits included three from the Textile sector, two from the pharma sector and one each from

packaging and speciality chemicals. The remaining portfolio has some of the best performing pharma and services investments which are expected to provide significantly higher overall return to the Fund.

How is the collaboration between BTS and Yes Bank working? What are the areas of funding? Earlier, you had identified "Socially Responsible and Sustainable Investing (SRSI)" as a niche finance area, which is untapped and a highly rewarding opportunity. Have you made any progress on this front?

BTS has always been integrating criteria of socially responsible and sustainable investing in the investment processes. The success of the Swiss Tech fund is convincing and underlines how important SRSI integrated in a professional investment process is. We will also continue to integrate SRSI criteria in the successor fund BTS India Private Equity Fund which is sponsored solely by BTS with active support from various international institutional investors and reputed Indian institutional investors as anchor investors. This fund would also be a general fund focusing on attractive investment opportunities arising in the Indian SME sector with special emphasis on Pharma, Engineering, IT & IT enabled Services, Media and Telecom.

According to you, what measures should further be initiated by way of reforms to boost the flow of foreign direct investment and the promotion of venture capital funds in India?

The process of economic liberalization and economic reforms need to continue at possibly high pace. We especially need a strong focus on infrastructure through new ways of financing, efficient administration while paying attention to the budget deficits. ■

Swiss banks' upswing continues into 2006

The reductions in excess capacity achieved through mergers and takeovers in the 1990s, the further rationalization measures initiated during the difficult phase that followed, and the advantageous business environment of the past two years have created a generally solid basis for the banking sector. There has thus been a clear slowdown in the consolidation process in the Swiss banking industry.

As many as 338 legally independent institutions were operating at the beginning of 2005, and this number decreased only slightly over the course of the year, primarily as the result of mergers in the regional and private banking segments. The declining trend in the number of branch offices continued (2,699 branches at the beginning of the year, 72 of these abroad). By contrast, following the cutbacks in previous years, headcounts had already posted a marked increase to over 115,000 in 2004, and this trend continued last year.

Measured in terms of gross income as the best gauge of overall business volume, the globally active big banks hold a leading position with a market share of 52 percent, the cantonal and foreign banks each accounting for just under 15 percent. There is intensive competition on quality and price at all levels of the financial services industry

Broad-based upswing

With the global economy still positive, the Swiss economy even picking up momentum, and sentiment in the financial markets generally good, the environment for the banks was practically ideal, although there were temporary market fluctuations that needed skilful handling. The interim results published up to late autumn indicated a clear increase in earnings again in 2005. In the domestic private and corporate clients business, rising volumes in most cases more than compensated for the effect of depressed margins, while provisioning requirements also remained low. Wealth management the key business mainstay of the Swiss banking sector received a significant boost from the robust global equity markets and attracted considerable amounts of new money.

The investment banking business provided more services in the new issues and mergers & acquisitions segments, while trading in equities, bonds, currencies and derivatives was also bolstered by the positive performance of the financial markets.

Confidence unbroken for 2006

The company survey conducted by UBS towards the end of last year in which 165 banks representing 60 percent of the sector's workforce took part confirmed the pleasing business trend for 2005 and showed it continuing into next year with only minor deductions. Expectations with regard to credit demand, off-balance-sheet business volumes and net new money inflows were thoroughly positive.

While the provisioning requirements on loan portfolios are estimated to be lower and prices for services are expected to be better, the respondents anticipate a further erosion in the interest margin, the impact of which could vary depending on credit exposure. All banking groups are also envisaging further increases in headcount. Given that this will also entail additional costs, the increase in earnings will not be able to entirely match the gain reported last year or the expansion in business volume.

-Christian Frey

Author is working with UBS Wealth Management Research

Swiss financial markets get renewed boost in 2005

Earnings & Growth Outlook Bright in '06

The upbeat financial markets and promising momentum in the economy gave the banks and insurers a renewed boost in 2005. This effect could weaken in 2006, but the growth and earnings outlook remains intact thanks to continued efficiency gains and robust demand.

Financial services is one of the most globalized industries. Although national regulations continue to hamper free trade in cross-border services, there is even some gradual regulatory convergence occurring as various countries seek to enhance the international appeal of their financial centres. One example of this is Basel II, which harmonizes the minimum capital adequacy requirements for banks.

Leading players are increasing their global market penetration, in particular for complex products and major clients, through an active presence in the key financial centres and fastest-growing economic regions as well as online. Switzerland's big financial services groups occupy a prominent position in this global league.

Critical mass is essential for these players given the dimensions of the transactions involved and the enlarged IT systems capacity required. This is why 2005 saw continued strong international takeover activity in the sector. Two deals that caused a stir were the acquisition of Germany's HypoVereinsbank by Italian group UniCredito and Swiss Re's announcement in November that it was to acquire GE Insurance Solutions, which all the necessary approvals permitting will make it the world's biggest reinsurer.

A globalized market with niches

In addition to this global dimension, both banks and insurers are still finding plenty of demand potential in their national and regional markets or in specific business areas. The small and medium-sized institutions benefiting from this potential in Switzerland include the cantonal, regional, Raiffeisen, asset management and private banks on the one hand and pension funds and health insurers (which are restricted to their domestic client bases) along with various life and non-life insurers on the other. Some of these firms boast firmly rooted client loyalty and a good knowledge of the local market or proven specialist expertise and can thus often achieve impressive growth and profitability.

That said, the pressure to pursue mergers or at least set up alliances, particularly in the expensive domain of logistics, or to focus clearly on certain services is mounting here as well. All-rounders without the requisite volumes or earnings power will find it difficult to maintain their market standing over the long term as financial services technology evolves apace.

Growth shows up in employment

Apart from the weather-related losses suffered by non-life insurers and reinsurers, 2005 turned out to be a successful year for the financial services sector thanks to encouraging global fundamentals and positive market sentiment. The latest UBS survey showed that the sector is largely taking a positive view of the outlook for the current year, too. However, ongoing structural adjustments to accommodate clients' changing needs or to increase efficiency are still indispensable and will be systematically continued. They range from optimizing internal work processes to outsourcing individual back-office functions, from alliances with logistics specialists to a stronger focus on core competencies. In the field of provision for old age, offered by both life insurance and banking, individual product solutions tailored to particular client groups seem to be winning out against earlier cautious flirtations with the "bancassurance" concept.

Online sales channels are steadily gaining importance for basic services like payments, stock-exchange trades and simple insurance policies, but this does not mean that Switzerland will be "out of work" as a financial centre. On the contrary, both banks and insurers were net job creators in 2005 after the strong employment decrease of previous years, and The UBS survey shows that this trend is even set to accelerate slightly in 2006. The focus in terms of jobs is shifting further towards highly skilled advisory and specialist functions. ***-Christian Frey***

Author is working with UBS Wealth Management Research

Credit Suisse
Turns 150, launches new global brand

Switzerland's second-largest banking group, Credit Suisse has launched a single global brand, with a changed logo reflecting its new strategic direction. The bank said the move was aimed at integrating its units, lowering costs and boosting sales.

Credit Suisse says it is combining its investment banking, private banking and asset management businesses to bring together all its know-how and expertise.

It is also intended to provide clients with a more flexible approach to their needs and give them better access to the bank's full range of products, services and solutions worldwide, says the company.

CS argues that the new brand reflects a bank that combines the dynamism and strength of a leading financial institution with the stability, discretion and experience of a Swiss bank with a long history.

This year CS marks the 150th anniversary of its founding by Swiss railway pioneer and politician Alfred Escher in 1856.

International focus

"Our new brand is an expression of our international focus, our heritage and our objectives," commented Credit Suisse CEO Oswald Grübel.

"The implementation of a single brand name underscores the fact that we are making our bank's entire expertise available to our clients globally via a single source and that we have a strong and unified presence in the market."

The occasion also marked the beginning of a global advertising campaign to complement the launch of the brand.

To celebrate the launch, Credit Suisse buildings in Zurich, London, New York, Hong Kong and Singapore have been illuminated for one week.

Reacting to the rebranding move, Klaus Stöhlker, a Zurich-based marketing and communications expert, said the launch of a new corporate identity had to be linked to internal restructuring.

"You can only rebrand when you have really changed the bank internally and I think that Grübel has not yet finished this work," Stöhlker said.

"The integration of First Boston is perhaps on its way, but is far from being finished. But he wants to give a sign that this is the only way.

"The multibrand strategy was a huge mistake that cost the shareholders billions of Swiss francs, and today Grübel and chairman Walter Kielholz want to get into secure waters."

Retail banking

Kielholz told the Neue Zürcher Zeitung newspaper that Credit Suisse would not pursue retail banking outside Switzerland even though the business may well boom in the coming years.

"Admittedly, one can ask whether retail banking will not have the biggest growth potential, also in Asia. But even if that were the case, we would not follow such a strategy," he said.

But he indicated that the bank could still change its view, saying that strategic room for manoeuvre would increase further as its earnings improved.

Kielholz also gave another reason for the one bank, one strategy approach now being taken.

"The multi-brand strategy simply didn't allow us to use synergies. The philosophical and emotional differences were too great. You were either a First Boston man or a Private Banker, and the Private Banker never really liked the First Boston man."

He argued that this compartmental way of thinking could not be overcome by simply talking about the problem.

To build Brand "Made in Switzerland"...

Wanted: Entrepreneurs!

Switzerland needs entrepreneurs who come up with ideas and who manufacture products inside the country, if its economy is to continue to prosper.

This was the message of a one-day conference in the capital Bern, devoted to Swiss manufacturing of the future, or simply put "Made in Switzerland".

While industrial activity in Switzerland is flourishing at present, particularly in engineering the leading export sector there can be no room for complacency, experts said.

Figures show that in 1990, 37 percent of the working population was active in industry. That figure is now down to 26 per cent, partly because of automation.

Both the European Union and Switzerland argue that a sustainable and balanced economy is only possible if it includes a strong manufacturing component.

Increasing services

The "Swiss Manufacturing of the Future" initiative is part of Europe-wide efforts to promote industry and not rely on the growing services sector.

"This initiative is important in so far as Switzerland will in the future remain an important place where we have industrial activities," Swiss Economics Minister Joseph Deiss said. "It aims at developing entrepreneurship in this country, and I welcome this of course."

For one of Switzerland's most outspoken captains of industry, Swatch Group chairman Nicolas G. Hayek, there is no doubt that manufacturing has been losing importance in Switzerland.

Hayek is a member of the so-called ManuFuture High Level Group set up by the European Commission to assure the future of manufacturing in Europe.

Losing ground

"It's losing ground and it shouldn't because it was one of the most important factors of Swiss wealth and growth," he said. "To correct this we need first of all real entrepreneurs, not managers but real entrepreneurs, creative people who make new products and create jobs."

"That's why we have created this forum to sensitize the whole population, and the young generation to consider the job of being an entrepreneur and not something else," he added.

Being an entrepreneur did not mean being the richest and most powerful captains of industry in a country. It could include gardeners, bakers or carpenters, he said.

Hayek said an entrepreneur for him was someone with much imagination, who was looking for innovation and had plenty of courage to overcome the challenges of daily life.

"Picasso is a good example for me of a big entrepreneur. He created new things, he created new jobs, he created new wealth and he communicated it to the people."

More pleasure

"I would tell people to consider being an entrepreneur because it gives you much more pleasure in life and you can develop and help society much more than if you were [doing] something else," he argued.

Hayek has on more than one occasion cited the "something else" as a bank employee who "sits in a dark room in front of a computer and plays on the stock exchange, hoping that he might make some money from it".

He said that although the situation of industrial manufacturing in Switzerland was not "terrible", it had to be corrected now before Switzerland ceased to have industrial production in 30-40 years' time.

But why produce in Switzerland where costs are high and even domestic companies have been looking abroad to reduce labour costs?

Best of both worlds

Economics Minister Deiss, not surprisingly, wants the best of both worlds. "It's important for me to have a lot of enterprises which choose the location of Switzerland to develop their activities. This is my first duty to create and maintain jobs in this country.

"On the other hand, it is important for our enterprises to get access to foreign markets. Today this is very frequently possible only if you are on the spot. I'm not afraid about Swiss enterprises that partially locate their activities in foreign countries because these can be an important impetus for their home activities," he said.

But said it was not the job of the federal authorities to become too involved in the world of Swiss companies.

"I would say the duty of the state is not to be active in the economy. We have to give them [the companies] the largest possible freedom of manoeuvre but we have to create the best possible framework conditions, whether regarding taxation, competition or the opening of new markets." ■

UBS posts record Q3 Net

Switzerland's largest bank, UBS, announced record profits in the third quarter of 2005, on the way to its best-ever annual figures. Third-quarter net rose 71 per cent to SFr2.77 billion ($2.15 billion) on higher fees and wealth management.

UBS net profit in the first nine months stands at SFr7.54 billion, which is well above the SFr5.94 billion reported for the comparable period in 2004 when the bank made a record full-year net profit.

Net new money flowing into the bank's wealth management business, which is the largest of its kind worldwide, totalled a record SFr31.1 billion, up from SFr20.2 billion in the second quarter boosting assets under management to SFr2.7 trillion at the end of September. This is 6.0 per cent higher than at the end of the second quarter and 20 per cent up on the comparable quarter last year.

Total operating income from financial businesses was SFr10.8 billion in the third quarter, up 27 per cent from the third quarter in 2004 while net trading income rose 159 per cent in the quarter from the same period last year to SFr2.3 billion.

"We will remain very optimistic about closing what will be an extremely good year for us," commented UBS chief financial officer Clive Standish on this performance. “It is unusual for the third quarter to be so strong though the market offered plenty of opportunities," Standish continued.

Analysts polled by Reuters and Bloomberg had expected a third-quarter net profit of just about SFr2.36 billion.

"The key thing to note is the strength of the wealth management operations and the net new money inflows," said analyst Simon Maughan at Dresdner Kleinwort Wasserstein. "The world is opening up now to UBS. There's money coming in from the Middle East, Asia and China," he added.

"We expected a good result after the US brokers and the German brokers had a good result," commented analyst Thomas Schudel at Bank Leu. "This exceeds my expectations significantly.” ■

Racing veteran Sauber voted "Swiss of the Year"

Peter Sauber, the founder of Switzerland's only Formula One team, has been voted Swiss personality of 2005 by television viewers across Swizerland.

Sauber, who was one of 18 nominees was rewarded for his influence at the highest level of motor racing.

The 62-year-old businessman finished in front of world motorcycling champion Thomas Lüthi and figure skating world champion Stéphane Lambiel. Last year the prize went to Lotti Latrous, who founded an aids hospice in the Ivory Coast with the help of a local doctor in 1999.

Sauber was one of the last privateers in Formula One. He said at the time that the recent arrival of teams run by major car manufacturers like Toyota, Renault and Honda made it difficult for small outfits to compete.

Sauber turned his back on Formula One at the end of last season after selling his team to German motoring giant BMW.

The two previous winners were the tennis player Roger Federer in 2003 and the paediatrician Beat Richner, who set up children's hospitals in Cambodia, in 2002.

Sauber's career in motor sport started in Switzerland with race-tuned Volkswagen Beetles. He then moved on to sports cars with a C1 that he designed in 1970 in the basement of his parents' house. The Sauber team first attracted international attention in 1976 when Herbert Müller gained overall victory in the European Interseries. He drove a Sauber BMW C5.

In the mid-1980s, Sauber became the Mercedes-Benz works team for the World Sports Car Championship and achieved a one-two win at Le Mans in 1989 and two successive titles in the World Sports Car Championship in 1989 and 1990.

Sauber moved into Formula One in 1993. The team's best season was 2001 when it finished fourth in the constructors' championship and made the podium six times.

Besides being chosen as Swiss of the year, Sauber was awarded the prize for the business personality of 2005. Lüthi took home the sports award, while Maurice E. Müller, the surgeon who funded Bern's new Paul Klee Centre, received the culture prize.

The show-business award went to comedian Massimo Rocchi. Politics was also honoured with the mayor of Locarno, Carla Speziali, being recognized for her efforts to promote her town, which hosts an international film festival every summer.

The winner in the Society category was cancer specialist Franco Cavalli, who runs the Oncology Institute of Southern Switzerland in Bellinzona, canton Ticino. ■

A Please-All Budget

In a please-all Budget for the financial year 2006-07 (April-March) presented on February 28, Finance Minister P. Chidambaram, laid stress on agriculture and poverty alleviation, while maintaining a status quo on the existing structure of personal and corporate income tax.

Painting a bright picture of the Indian economy in his third consecutive annual Budget, Chidambaram said the economic growth in 2005-06 ending March 31 was likely to be 8.0 percent and the government was determined to step it up to 10 per cent in the next few years.

"The assault on poverty and unemployment continues. I believe that growth is the best antidote to poverty," he said

The Budget proposed an increase in agricultural credit. It is to be raised to Rs 175,000 crore in 2006-07 from Rs 141,500 crore in the current year, covering 50 lakh more farmers. A separate window for tenant farmers is to be set up to ensure them a loan share.

Chidambaram did not propose any changes in the rates of personal or corporate income tax, which pleased the salaried classes as well as businessmen. So, the reaction was one of appreciation. "It's 'good budget'" was the first reaction to the Budget..

Responding to the demand for tax exemption on fixed deposits of certain tenure, the finance minister proposed to include investments in fixed deposits in scheduled banks for a term of not less than five years in Section 80C of the Income Tax Act.

More services in Tax net

The Budget brought more and more services under the tax net. One of the services is ATM. The new services to be covered also include maintenance and management, registrars, share transfer between agents and bankers. The other services to be brought within the service tax net include sale of space or time for advertisements other than in the print media, sponsorship of events by companies other than sports events, international air travel excluding economy class passengers, container services on rail excluding the railway freight charges, business support services, auctioneering, recovery agents, ship management services, travel on cruise ships and public relations management services. In 2005-06, the services sector is estimated to contribute

54 per cent of GDP. Naturally, it should also contribute significantly to the exchequer, Chidambaram said.

Excise cut on small cars

Small cars have suddenly become a little cheaper. The Budget has proposed a cut in excise on small cars. Consequently, Maruti M800 and Alto, Hyundai Santro, and Tata Indica will cost a lot less from March 1, 2006. Indian car market leader Maruti Udyog announced a price cut ranging between Rs 13,000-22,000 across five models, including M800 and Alto.

"Maruti prices will reduce from tomorrow," company Managing Director Jagdish Khattar said, immediately after the budget announcement. That duty had been reduced by 8.0 percent to 16 per cent. The price cut on the popular M800 will be around Rs 13,000, hatchback Alto by Rs 15,000, and on WagonR between Rs 15,000 and Rs 22,000,

"We will incur a loss of Rs 30-40 crore because of this though it would be good in the long term," Khattar said. The other two models where prices will be cut are the Zen and Omni van. Minutes after the announcement on the excise duty cut, Hyundai announced a Rs 23,000 cut in prices of its flagship Santro car. "The Santro will cost Rs 23,000 less from tomorrow," Hyundai India President B V R Subbu said.

Welcoming the finance minister's announcement, he said it would give a fillip to the small car segment. "We hope that it leads to a significant growth in demand for small cars," he said.

Tata Motors on Tuesday said it will be reducing the prices of some of its cars, including the hatchback 'Indica,' following the reduction of excise duty on small cars. "We will be reducing the price, though exact details are being worked out," Tata Motors vice president (passenger car business unit) Rajiv Dube said The duty cut will be applicable to 1500 cc diesel cars and 1200 cc for petrol cars.

Duty cut on life-saving drugs

Certain life-saving drugs, kits and equipment will now be cheaper with the reduction in customs duty on them. The drugs on which customs duty has been reduced to five percent include 10 anti-AIDS and 14 anti-cancer drugs.

Duty has been reduced on life-saving drugs, kits and equipment from 15 percent to five percent. These drugs will also be exempt from excise duty and countervailing duty.

Defence spending raised

The budget increased the allocation for defence from Rs 83,000 crore to Rs.89,000 crore in 2006-07..

This will include Rs 37,458 crore for capital expenditure. The higher allocation has been made keeping in view the enhanced expenditure on modernization of the defence forces.

"The government has fulfilled the long-standing need of retired armed forces personnel below officer rank for better pension benefits," the Finance Minister said.

No negatives

Captains of Indian industry and investment bankers lauded the Finance Minister for measures to bring in fiscal discipline and cut deficit. But they had a mixed view on the new tax proposals burdening the capital market.

"The industry will be happy as there are no major negatives. It has cut down customs duty and has covered lot of industries as well," CII chief mentor Tarun Das said immediately after presentation of the Budget.

J M Morgan Stanley Chairman Nimesh Kampani termed the budget as a good development on the fiscal side. "I think the minister has done a great job in fiscal deficit, which will be 3.8 per cent of GDP in 2006-07," he said.

Kotak Mahindra Bank Vice Chairman Uday Kotak also welcomed the budget saying it was a positive budget at a micro level and was good for long-term investors.

However, Ruchir Sharma of Morgan Stanley said it was an 'innocuous budget' and there were no policy initiatives to take the market to higher levels. "The market hoped much more than reforms... even the Prime Minister had talked about out of the box thinking," he regretted.

The highlights of the tax proposals:

• No changes in the rates of personal income tax, which will remain as they are currently.
• No change in corporate income tax rate.
• No new taxes on income.
• One by six scheme for filing of income tax returns has been abolished.
• Services tax net to be increased which include ATM operations, maintenance and management, share transfers, registration, international air travel excluding economy class, sponsorship other sports events, auctioneers, ship management and travel on cruise.
• 25 per cent across the board increase in securities transaction tax.

Cooperative lending banks and rural development banks to be exempted from taxes under Section 80(B).
Fixed deposits in scheduled commercial banks with at least five year maturity will get tax exemption for savings under section 80C of Income Tax Act.
• The Rs 10,000 exemption limit for investment in pension funds under Section 80CCC has been removed but these investments would be brought under Sec.80C subject to a ceiling of Rs 1 lakh.
• Donations to only religious institutions will be exempted from tax.
• Minimum alternative tax on corporates increased from 7.5 per cent to 10 per cent.
• More transactions to come under PAN.
• Constituency allowances of MLAs to be treated as
• constituency allowances of MPs for income tax purposes.
• Banking cash transaction tax introduced last year will
• continue. In one bank branch in Chandni Chowk, laundering to the tune of Rs 1,500 crore was detected.
• Fringe Benefit Tax modified. Threshold limits raised, but FBT will remain as it is justified for ensuring horizontal equity.
• Minimum alternative tax on corporates increased from 7.5 per cent to 10 per cent ■

Long Term Strategies for Sustainable Development

Mr. K C Venugopal

K. C. Venugopal, Minister for Tourism and Devaswom, has proved his efficiency soon after assuming power. Several strategies and initiatives were framed to tap the maximum potential of Tourism in Kerala. Marketing in the international markets, attracting investments in the tourism sector, building up infrastructure etc. are given equal priority to facilitate the growth of tourism. In a chat with **G. Biju Krishnan** he elaborates on the plans and proposals.

What are the measures taken for sustainable tourism development in Kerala?

As part of the efforts for sustainable tourism development in Kerala, the government has given shape to 'Tourism Vision 2025', which serves as a guiding force for the growth and development of tourism in the state. Apart from sustainable development, it also envisages guidelines for marketing and conservation. Vision 2025 would also help in formulating long-term plans that would do no harm to the ecology and culture of the land. To regulate tourism development in accordance with ecological guidelines we have formulated the Kerala Preservation and Conservation of Tourism Areas Act 2005, the first legislation of its kind in India. We have also made preservation and conservation of our natural and cultural heritage, a cornerstone in tourism development.

What are the prospects of tourism in terms of economic activities and employment generation?

Foreign exchange earnings could be optimized only if we succeed in attracting more foreign tourists. With the coming in of high spending tourists, more economic activities would take place and more employment opportunities would be generated. The Tourism industry should be able to develop unique products, which can provide authentic experiences and value added services. While providing world-class products and services to the tourists, the prices should be made competitive. We have to bear in mind that almost all nations and destinations have realized the potential of tourism and are extending products and services at the minimum cost. We have to compete in the international market and for that the government is now focusing on market development and brand building. We are in the process of developing a time bound marketing plan with special focus on selected markets.

How do you see the flow of tourists to Kerala in the past few years?

Kerala Tourism is doing extremely well as it has succeeded in attracting a large number of international as well as domestic tourists. According to the statistics, a total of 345,546 international tourists visited Kerala in the year 2004, registering a growth of 17.28 per cent over 2003. In 2004 the total domestic tourist arrival was 59,72,182 and in the previous year it was 58,71,228, registering a growth of 1.72 per cent. We hope that the

figures would go up further in the current year.

Creating awareness in the international and domestic markets is an ongoing process. When do you think Kerala would be able to reap the harvest?

We are already reaping the rewards of the promotional activities carried out in the international and domestic markets. The increase in the number of tourists visiting Kerala is the result of our marketing efforts. Marketing should be a continuous effort, without which no destination can survive. We are trying to throw new light on the tourism brand of Kerala without harming the existing values and do marketing aggressively.

Which all markets is Kerala focusing on currently and what are the strategies being used to tap different market segments?

Currently we are concentrating on the Western European markets like U.K, France, Germany, Italy, Australia, Switzerland and Netherlands. We are also looking at the emerging markets in South East Asia like Japan, Singapore, Malaysia and leading countries in the Middle East like UAE, Kuwait, Saudi Arabia etc. We are looking at product specific promotion in these markets like Ayurveda in Germany and culture in France.

What are the challenges Kerala has to face in its marketing efforts?

We are trying to attract more high spending leisure tourists to the State and that of course is a challenge. The most striking challenge is to promote the State without losing its appeal. Resources are a major constraint when you try to reach out to international markets. We try our best to stretch each marketing rupee to its maximum and get the best out of the promotional activities. Another challenge is the increasing competition between destinations, both national and international.

What are the promotional packages planned to woo tourists to Kerala?

The Government of Kerala and the Department of Tourism play the role of a facilitator and so our focus is always on finding new products and promoting them. After the tremendous success of Ayurveda and Backwaters, Kerala Tourism is now promoting new products like Plantation Holidays, Farm Tourism, Monsoon rejuvenation holidays and Wedding and Honeymoon holidays. The private sector develops packages and offers them in emerging markets and these are jointly promoted.

What are the marketing initiatives taken up to cater to various segments of the market?

In the recent years more and more foreign tourists are arriving to Kerala. Kerala Tourism attributes this to the time-specific, market specific campaigns. To capture the foreign markets, we are mostly focusing on the electronic media; especially television and we are airing campaigns on CNN, BBC, National Geographic and Discovery channels in Europe, Middle East, Asia Pacific and South East Asia. Another way of reaching out to the international market is by participating in all major international tourism events and fairs like WTM London, ITB Berlin, FITUR Spain, BIT Milan, CITM China, PATA Singapore etc.

What are the steps taken up to assure tourist arrivals through the year?

At present, domestic tourists visit Kerala mainly between November and May. The peak season for international tourist arrivals is between October and March. But with the aggressive promotion of Ayurveda, we have been receiving tourists even during monsoon, extending the tourist season. We are also promoting the traditional festivals like Onam, Elephant pageants and Boat races in a big way to attract tourists during August and September.

How far are exhibitions and road shows helping in attracting tourists to Kerala?

Participation in tourism, trade fairs and organization of road shows are key promotional activities of Kerala Tourism. These help us in getting a foothold in new markets, consolidating our presence in existing markets and also to popularize Kerala among the travel media in these markets. They also provide a platform for the tourism trade in Kerala to network and develop business relationships with their counterparts in other markets.

What are the steps taken to attract private investments in the tourism sector?

We are well aware that without private participation and investment, tourism cannot triumph which is why we are extending all possible support for private entrepreneurs in the tourism sector. The Government plays the role of a facilitator and catalyst for private sector investment. The Government provides various incentives and subsidies to private investment in the tourism sector. An Investment Guidance Cell helps in facilitation and provides guidance to set up projects in the tourism field. Joint Ventures with Private Sector also help in attracting investment in the

tourism sector. The aggressive marketing of the tourist attractions of the State and Kerala's strong brand equity also attract large investments in tourism from big time national players and from NRIs.

There are complaints about lack of proper infrastructural facilities. What are the steps taken to overcome this?

Infrastructure development figures are high in Kerala Tourism's agenda. We are providing funds from the Department for upgradation and maintenance of roads on a world-class basis. Vazhiyoram, a pioneering project to set up wayside amenities with private participation is another effort to bolster infrastructure for tourism development. Backwater development plans with boat terminals and jetties will also improve tourism infrastructure. Several other initiatives are also in the pipeline.

What are the most obvious and not so obvious trends and innovations that drive tourism in Kerala?

I think the most obvious trends are the increase in disposable income, rise in luxury travel, lower air fares etc. It is an international phenomenon that travellers are eager to find diversity rather than similarity. Kerala has varied products and services to offer that can satisfy any traveller. A key contribution to Kerala's success has been the entrepreneurship and innovativeness displayed by the tourism trade in the State. The ingenious tourism products developed by the trade like the Houseboats, Tree-houses and the boutique Kerala style hotels and resorts have all given an original flavour to Kerala Tourism.

What steps have been taken to create awareness among the tourists and locals about the importance of ecology?

Kerala is the first state in India to introduce a branding and classification system for the tourism products and services. The Ayurveda Centres in Kerala have been issued 'Green Leaf 'or 'Olive Leaf' certification, depending on their services and facilities. Houseboats operating in the state have been branded 'Gold Star' or 'Silver Star' and authorities are continuously evaluating its functioning. The Department of Tourism would soon be launching an Eco-Ttourism Certification Programme for tourism service providers, based on their adherence to Eco-Tourism practices. Local awareness campaign to sensitise stakeholders in tourism like taxi drivers, guides etc. about the benefits of tourism is another such initiative.

What are the steps taken to assure local level development and promotion of ethnic arts and crafts through tourism?

Several projects are being taken up by the Department in this direction. Kudumbashree, a local self-help women's initiative, has been identified and is entrusted with the upkeep of select destinations. The Govt. organizes the Nishagandhi Dance and Music Festival and other cultural programmes to promote the State's ethnic art forms. The Art forms are also showcased at Kerala Travel Mart, Malabar Travel Mart and other Road shows organized by Kerala Tourism. Several other projects like Village Tourism are also being implemented with these objectives.

What are the entertainment facilities set up for the tourists visiting the state?

The term entertainment is very much a personal one, and varies from person to person. The entertainment facilities available in Kerala are unique and varied. We have given top priority to the promotion of traditional events, cultural activities, art forms etc. The boat races of Kerala are unique which cannot be seen in any other part of the world. We are keen on showcasing what we have rather than creating something artificial. The amusement park attached to Veli Tourist Village in Thiruvananthapuram is purely for entertainment. An area of 7.5 hectares of land is ready to be handed over to Southern Fun City for its construction. The Government of India has also sanctioned Rs. 4.23 crores for setting up a Marina in Bolgatty Island at Kochi. A Golf Course is being planned at Kochi. Dreamcity Project at Kozhikode is yet another attempt for augmenting entertainment options in the State. With the realisation of all these projects, the state would have ample entertainment opportunities. ■

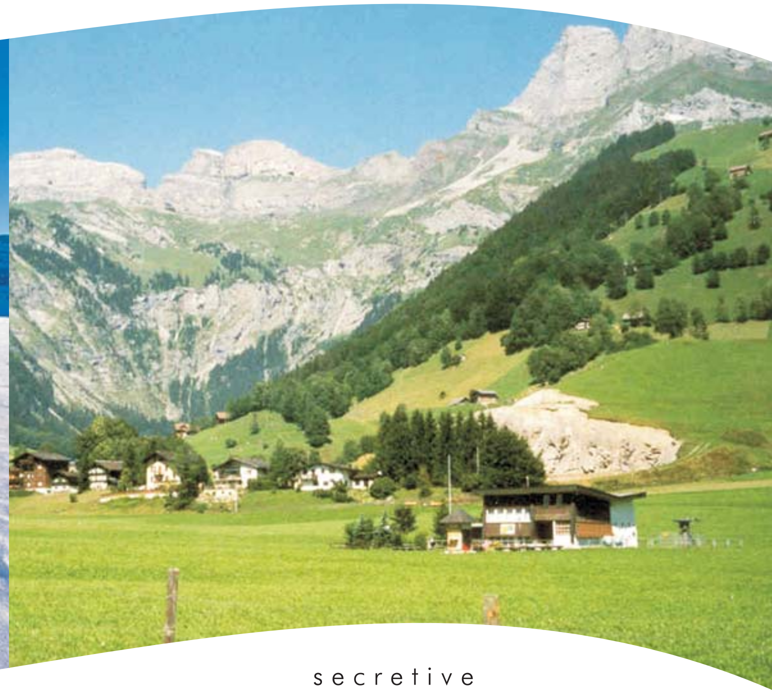
Engelberg: Beauty lies in its seclusion

A Village Paradise Where Angels Sing

The village Engelberg is a paradise round the year, in spring, summer and winter, as a paradise should be. The name Engelberg, connoting the Singing Voices of Angels, came into use centuries back, with the foundation of a Benedictine monastery in the village, tucked high in the Alps, at 1050 metres above sea level. The monastery instilled in Engelberg and its environs, a sense of spirituality, harmony and peace. Today's modern seminary has grown out of the former monastery school.

Engelberg is very easily accessible, right in the middle of Switzerland, just about 20 km from the motorway by car, or a comfortable ride from Lucerne by train on the Zentralbahn line, direct to the monastery village of Engelberg. There are as many as 26 different transport facilities - ranging from a simple drag to the Rotair cableway to take you over Alps, forest and rock high up to the eternal snow. The highpoints of Engelberg include Titlis, Jochpass, Brunni, Fürenalp, Obertrübsee and Stäfeli, to name a few.

The village radiates the charm and grace of the Benedictine monastery, the wonderfully fresh and lush countryside and a breath-taking mountain panorama. Cable cars make off with tourists in all directions, while good restaurants, mountain huts and hotels invitingly await them. Added to the splendour of the nature, are a varied wellness programmes and sports that spread a sense of healthy cheerfulness and joy among tourists.



A great tourist resort

The first ascent of the Titlis (1744) and the first spa guests (approx. 1850) were the forerunners of modern tourism. Engelberg has been accessible by road in winter too, since 1931. The construction of cableways and hotels transformed Engelberg into a heavenly holiday resort as it is known today.

Engelberg in Winter

Winter is the time when the snow comes down swirling from the sky, in flakes and powder, painting the Alps in picturesque white. Skiing under a clear sky, on snow-bound virgin and fast-track slopes stretching beyond 80 km, sometimes rising up to 3000 metres is an experience that stays with you life-long with lingering pleasure. Then there is trekking along winter hiking paths and cross-country tracks through forests in deep snow. Enjoy Swiss-style macaroni, café with schnaps and mind-blowing music to warm you up in your rest-breaks.

Brunni (1600 m 2040 m.)

The sunny side of Engelberg is Brunni. Ideal for beginners, families and groups. The Yeti-Park is very suitable for children skiing for the first time. The Brunni trail leads the way through a mountain homeland. The Rugghubel hut is just as worth discovering as the Walen trail, the tickle path or the Kneipp trail.

Walen Trail

Walen trail is abit difficult. It is a Lovely high ridge walk, with surprising discoveries in the world of fauna, flora and geology. Enjoy the unique Engelberg mountain world, the secretive Walenstöcke and the incredible views into the distance, and take a rest at the Schweizer-Familien picnic area. It is suitable only for the sure-footed.

Brunnipfad

As many as 12 large information boards on the Brunnipfad explain the nature and lives of men and animals in the mountains. For those interested in botany, there are over 100 types of plants, all marked and described, along the Panorama Circular Route. A number of Swiss wood sculptors created works of art during the "Artifex Montanaus" campaign together with the Brunni railways, and these works are on show along the route. It is very suitable for groups, schools and families and even in wet weather is easy to walk along.

Fürenalp

Grotzli path: experience nature and culture at walking pace. Ridge path walking: spectacular going up and idyllic coming down Slightly hidden but all the more tranquil: lush alpine meadows and impressive views towards Spannort and Engelberg. Füren Alp (1840 metres above sea level): modest and charming, the ideal starting point for idyllic walks and close- to-nature experiences.

Grotzlipath

A pleasant pathway in the midst of the Engelberg high alps. Ten different information points explain history, rock formation, flora and fauna, and the cultivation of the alpine regions. A detailed book with simple explanations and lots of photographs is available from the Tourist Center.

Engelberg in summer

Relaxed and natural with lush green meadows, white snow, grey rocks, red peaks and steel-blue mountain lakes. 360 km of hiking paths and lots of breezy overhead railways ranging from simple drags to the Rotair cableway all tempting you to explore the valley again and again. A whole range of activities from abseiling to wood-carving promise an exciting holiday experience.

Alpine Air & the Hiking

Hiking with vision, breathing in fresh alpine air, giving your circulation new well-being, inhaling the fragrance of the flowers, treating your senses to new experiences. Over 360 km of hiking paths await you

Titlis High Alpine Hiking

Four-lakes hike & Joch Pass: A special experience. Geological hiking path Trübsee Stand: a good job done - naturally.

Mountain flora trails Gerschnialp and Trübsee: no perfume smells better.

Geological Hiking Path

A panorama path with impressive views down to Trübsee and Engelberg. Inviting seats on the way to stop for a rest, and different information boards explaining the rock formations and the structure of the mountain ranges. Return by funicular possible. A detailed book on the subject can be ordered from the Tourist Center

Mountain flora trail

Information on the wonderful mountain flora is available at the foot of the Titlis. The individual plants are marked with yellow information tags. Comfortable walk in beautiful surroundings. Ideal short walk for families.

Valley Walk with Peak Views

Enjoy the sound of rushing water along the Engelberg Aa. Discover the seven springs and visit the "End of the World": which can be reached in barely an hour from Engelberg.

Along the banks of the Engelberg Aa:

Seven Springs

At the end of Klostermatte turn left and walk for about 200m uphill along Kilchbühlstrasse. Then take the dirt track to the right, where, in the shade of beautiful leafy trees, spring water comes bubbling out of the ground at seven different places. ■

Swiss Financial Services get boost in 2005

Positive Growth & earnings Outlook to Continue in 2006 - UBS Survey

The upbeat financial markets and promising momentum in the economy gave the banks and insurers a renewed boost in 2005. This effect could weaken in 2006, but the growth and earnings outlook remains intact thanks to continued efficiency gains and robust demand.

Financial services is one of the most globalized industries. Although national regulations continue to hamper free trade in cross-border services, there is even some gradual regulatory convergence occurring as various countries seek to enhance the international appeal of their financial centres. One example of this is Basel II, which harmonizes the minimum capital adequacy requirements for banks. Leading players are increasing their global market penetration, in particular for complex products and major clients, through an active presence in the key financial centres and fastest-growing economic regions as well as online.

Switzerland's big financial services groups occupy a prominent position in this global league. Critical mass is essential for these players given the dimensions of the transactions involved and the enlarged IT systems capacity required. This is why 2005 saw continued strong international takeover activity in the sector. Two deals that caused a stir were the acquisition of Germany's HypoVereinsbank by Italian group UniCredito and Swiss Re's announcement in November that it was to acquire GE Insurance Solutions, which all the necessary approvals permitting will make it the world's biggest reinsurer.

A globalized market with niches

In addition to this global dimension, both banks and insurers are still finding plenty of demand potential in their national and regional markets or in specific business areas. The small and medium-sized institutions benefiting from this potential in Switzerland include the cantonal, regional, Raiffeisen, asset management and private banks on the one hand and pension funds and health insurers (which are restricted to their domestic client bases) along with various life and non-life insurers on the other. Some of these firms boast firmly rooted client loyalty and a good knowledge of the local market or proven specialist expertise and can thus often achieve impressive growth and profitability. That said, the pressure to pursue mergers or at least set-up alliances, particularly in the expensive domain of logistics, or to focus clearly on certain services is mounting in Switzerland as well.

All-rounders without the requisite volumes or earnings power will find it difficult to maintain their market standing over the long-term as financial services technology evolves apace.

Growth shows up in employment

Apart from the weather-related losses suffered by non-life insurers and reinsurers, 2005 turned out to be a successful year for the financial services sector thanks to encouraging global fundamentals and positive market sentiment.

The latest UBS survey showed that the sector is largely taking a positive view of the outlook for the current year, too. However, ongoing structural adjustments to accommodate clients' changing needs or to increase efficiency are still indispensable and will be systematically continued. They range from optimizing internal work processes to outsourcing individual back-office functions, from alliances with logistics specialists to a stronger focus on core competencies.

In the field of provision for old age, offered by both life insurance and banking, individual product solutions tailored to particular client groups seem to be winning out against earlier cautious flirtations with the "bancassurance" concept. Online sales channels are steadily gaining importance for basic services like payments, stock-exchange trades and simple insurance policies, but this does not mean that Switzerland will be "out of work" as a financial centre. On the contrary, both banks and insurers were net job creators in 2005 after the strong employment decrease of previous years, and the UBS survey shows that this trend is even set to accelerate slightly in 2006. The focus in terms of jobs is shifting further towards highly skilled advisory and specialist functions. ■

3rd quarter net up 71 percent

UBS poised to reap bumper 2005 net profit

Switzerland's largest bank, UBS, has announced a record profit in the third quarter and is well on the way to its best-ever annual figures.

Third-quarter net profit rose by 71 percent to SFr2.77 billion ($2.15 billion) on higher fees and wealth management, clearly beating market expectations.

"We will remain very optimistic about closing what will be an extremely good year for us," commented UBS chief financial officer Clive Standish in a conference call.

Net new money flowing into the bank's wealth management business, which is the largest of its kind worldwide, totalled a record SFr31.1 billion, up from SFr20.2 billion in the second quarter.

The figure boosted assets under management at UBS to SFr2.7 trillion at the end of September. This is six per cent higher than at the end of the second quarter and 20 per cent up on the comparable date last year.

Market opportunities

"It is unusual for the third quarter to be so strong. But the market offered plenty of opportunities," Standish said in a statement.

Analysts polled by Reuters and Bloomberg had expected a third-quarter net profit of about SFr2.36 billion.

"The key thing to note is the strength of the wealth management operations and the net new money inflows," said analyst Simon Maughan at Dresdner Kleinwort Wasserstein.

"The world is opening up now to UBS. There's money coming in from the Middle East, from Asia and China," he added.

Total operating income from financial businesses was SFr10.8 billion in the third quarter, up 27 per cent from the third quarter in 2005.

Net trading income rose 159 per cent in the quarter from the same period last year to SFr2.3 billion.

"We expected a good result after the US brokers and the German brokers had a good result," commented analyst Thomas Schudel at Bank Leu. "This exceeds my expectations significantly."

UBS net profit in the first nine months stands at SFr7.54 billion, which is well above the SFr5.94 billion reported for the comparable period in 2004 when the bank made a record full-year net profit.

Rival Credit Suisse, Switzerland's number two banking concern, is due to announce its third-quarter figures on Wednesday. ■