FMA

Financial Market Authority
Liechtenstein

# Liechtenstein Financial Market

Facts and figures on financial intermediaries subject to supervision by the FMA

2012 edition

# FOREWORD

Dear Readers

As an integrated supervisory authority, the FMA Liechtenstein supervises banks and insurances as well as other participants in the Liechtenstein financial market such as asset managers, investment undertakings, and professional trustees. In this publication, we have presented the most important facts and figures on these market participants in a compact form.

Internationally, the year 2011 was a difficult one for the financial sector. The slowdown of the world economy and the government debt crises in several EU countries have been a heavy burden on the European banking sector. To strengthen their resistance, banks are called upon to increase their equity capital. Since the beginning of the year, the situation on the financial markets has eased somewhat. The European Central Bank has made massive amounts of additional liquidity available to the European banking system. The restructuring of Greek public debt in March 2012 also contributed to the easing.

The Liechtenstein financial center is stable. The year 2011 nevertheless was a major challenge for local financial market participants. With low interest rates, stagnating yet volatile investment markets, and the strong franc, the market environment was extraordinarily difficult, so that the income situation of banks as well as their cost-income ratio developed negatively. The Liechtenstein financial sector is facing this phase with a comfortable capacity to bear risks. The capital ratios and liquidity buffers are far above the international standards. Strengthening earning power is necessary, however, and must predominantly be achieved on the cost side.

The Liechtenstein financial center is going through a far-reaching transformation phase. Thanks to its stability, it can master this phase from a position of strength and use the opportunities presented by this change. These consist especially in Liechtenstein's access to the European Economic Area and the rapid and clever implementation of EU regulations. Factors such as political stability, the healthy Liechtenstein national budget, and attractive business conditions for companies are to be rated very highly for the attractiveness of the financial center in today's environment.

Mario Gassner
Chief Executive Officer

# INTERNATIONAL ECONOMY
# AND FINANCIAL MARKETS

# 1. INTERNATIONAL ECONOMY AND FINANCIAL MARKETS

## 1.1 INTERNATIONAL ECONOMY AND FOREIGN FINANCIAL MARKETS

The year 2011 was one of disillusionment on the international financial markets. While it had been assumed up to that point that the financial crisis and its consequences had been overcome, the unexpected slowdown of the world economy and the spreading government debt crisis sharpened awareness of the fact that the credit bubble which burst at the outset of the financial crisis had left an enormous debt burden on the world economy behind.

The economic upswing slowed down noticeably in the first half of 2011. The slowdown resulted not least of all from the unfavorable development in Europe, where the government debt crisis and the tightening of public austerity efforts are resulting in increased uncertainty of economic players and have weakened demand. Additionally, growth of the US economy has been sluggish, in light of persistently high unemployment and hesitant investment activity. Emerging economies, in contrast, have been an important engine for the world economy.

The international financial markets exhibited increasing skepticism concerning the ability of various states to stabilize their public debt. While the skepticism initially was limited to just a few countries in the European periphery, it expanded due to the worsening economic prospects in the summer to an increasing number of European countries and ultimately threatened states outside Europe as well, such as Japan and the United States. The doubts concerning the creditworthiness of the states spread to the banking system, since many banks were at risk of write-offs that might harm their capital base. There was a risk that financial flows would come to a halt. The European currency area had fallen into a spiral in which the tensions in the public budgets, a fragile banking system, and a weakening economy negatively reinforced each other.

The European banking system is currently facing a considerable loss of trust. On 26 October 2011, the European Council therefore agreed on harmonized capitalization in the European banking system as well as guarantees for longer-term bank liabilities. Banks are to build up equity buffers to cushion write-offs on government bonds. The European Banking Authority estimated the capital needs of European banks to be EUR 115 billion in December. By June 2012, banks are to achieve a core capital ratio of 9%.

The persistently high valuation of the Swiss franc has been a burden on both the Swiss and the Liechtenstein national economy. On 6 September 2011, the Swiss National Bank therefore established a floor of CHF 1.20 per euro, which it has rigorously enforced since then. The strong franc is pushing down import prices, which is reflected in declining consumer price inflation. The low interest rate level has favored a significant rise in real estate prices.

The situation on the financial markets has eased somewhat since the beginning of 2012, not least of all thanks to the European Central Bank, which opened the floodgates and made additional liquidity available to the European banking system. Associated with this, the yields of government bonds of various European countries have fallen noticeably. The risk of a refinancing bottleneck of individual states or banks has declined significantly. The successful restructuring of Greek government debt in March 2012 also contributed to stabilization.

## 1.2 LIECHTENSTEIN FINANCIAL CENTER

After the Liechtenstein financial sector overcame the global financial crisis of 2007–2008 comparatively well, the income situation of the Liechtenstein financial sector worsened noticeably. Earnings fell in 2011 and are now at low levels in parts of the Liechtenstein financial sector, while turnover has stagnated or fallen. The cost ratio has become significantly less favorable. The short- and medium-term income and growth outlook of the financial sector is dampened, since persistently difficult market circumstances and increasing regulatory and administrative costs must be assumed.

The strong Swiss franc represents a challenge for the local financial sector. The strong franc is a burden in that a large and growing share of turnover is being generated abroad in foreign currencies. When the Swiss franc appreciates, the turnovers reported in francs drop accordingly. The same is true of income. Most of the costs of the financial sector are incurred in Swiss francs, however, to the extent the parent companies are located in Liechtenstein. This leads to a worsening ratio of costs and income. In the longer term, there is a risk of shifting costs abroad unless the currency situation returns to normal.

The Liechtenstein financial sector is facing this phase marked by high uncertainty with a comfortable capacity to bear risks. Capital resources in recent years have risen again, and equity ratios are far above the international standards. The comfortable liquidity buffers also provide support, and they are likewise far above the minimum standards. The resistance of the Liechtenstein financial sector should therefore continue to be rated very highly.

- Banks: At the end of 2011, Liechtenstein banks including foreign group companies managed client assets in the amount of CHF 166 billion. This represents a decline of 1.3% compared with the previous year. This decline is primarily due to the high valuation of the Swiss franc. The net inflow of new assets in 2011 was CHF 7.1 billion, compared with CHF 5.8 billion in the previous year.
- Insurance undertakings: Premium income in 2011 was CHF 4.9 billion, of which CHF 4.3 billion was generated by life insurances. The capital investments of insurance undertakings amounted to CHF 29.1 billion as of the end of 2011, compared with CHF 29.5 billion in the previous year. The decline by 49% compared with the previous year is primarily due to expiry of the Italian tax amnesty in April 2011.
- Asset management companies: Assets under management of the companies declined by 10.4% to CHF 21.8 billion. Of this amount, CHF 16 billion are invested at Liechtenstein banks.
- Investment undertakings (funds): The number of investment undertakings rose by 66 to 535 since the previous year. The total net assets under management rose by 6.1% in 2011 to CHF 35.4 billion.

# FINANCIAL INTERMEDIARIES

# 2. FINANCIAL INTERMEDIARIES

## 2.1 BANKS

17 banks were licensed at the end of 2011. Of these, 7 banks were subsidiaries of Swiss or Austrian institutions. One bank is undergoing voluntary liquidation. The banks play a major role in the Liechtenstein financial center. Their activities focus on private banking and wealth management. Thanks to Liechtenstein's membership in the European Economic Area (EEA), the banks have access to the entire European single market. Several banks are also active outside Europe, especially in Asia, with representative offices or subsidiaries.

**Development in 2011**
From an income perspective, the year 2011 was a difficult one for the Liechtenstein banks. Falling turnover could not be compensated by equally rapid reduction of operating costs. This led to stronger declines in the result from ordinary business activities. Subsidiaries abroad were likewise not entirely immune to this development, but due to the more positive environment were better able to cushion the negative impact. The three major banks have expanded their presence abroad selectively over the past years in order to open up areas of growth. Conversely, they reduced their activities in countries with lower income potential.

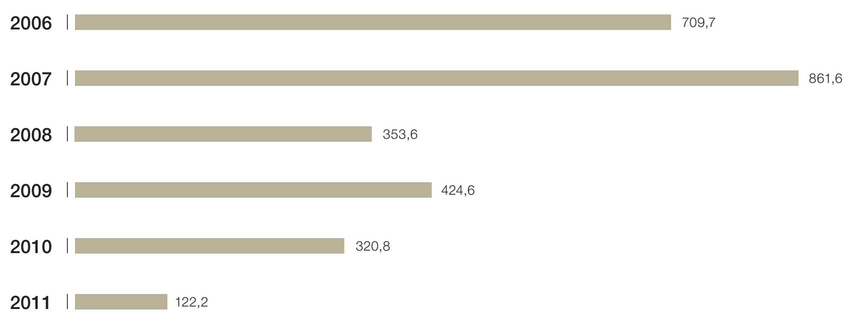


Figure 1
Result from ordinary business activities
(in million CHF)

The strong decline in profit in the financial business and the lower profit in trading, combined with business costs that remained practically equally high, entailed that the result from ordinary business activities declined by 61.9% to CHF 122.2 million (previous year: CHF 320.8 million). Interest rate income recovered slowly. Fee income was kept at similar levels to the previous year. Nevertheless, almost all banks achieved a positive result. The high valuation of the Swiss franc and the sluggish economy in the export markets were a burden on the Liechtenstein and Swiss national economies. Thanks to liquidity provided by the European Central Bank (ECB), the situation on the financial markets eased slightly.

At the end of 2011, Liechtenstein banks including their foreign group companies managed client assets in the amount of CHF 166 billion (previous year CHF 168.1 billion). This represents a decline of 1.3% since the previous year. The net inflow of new assets rose by 21.5% from CHF 5.8 billion in the previous year to CHF 7.1 billion in 2011. Client assets under the management of the Liechtenstein banks without foreign group companies amounted to CHF 109.2 billion at the end of 2011 compared with CHF 116.2 billion in the previous year. They recorded a net outflow of new assets in the amount of CHF 0.4 billion.

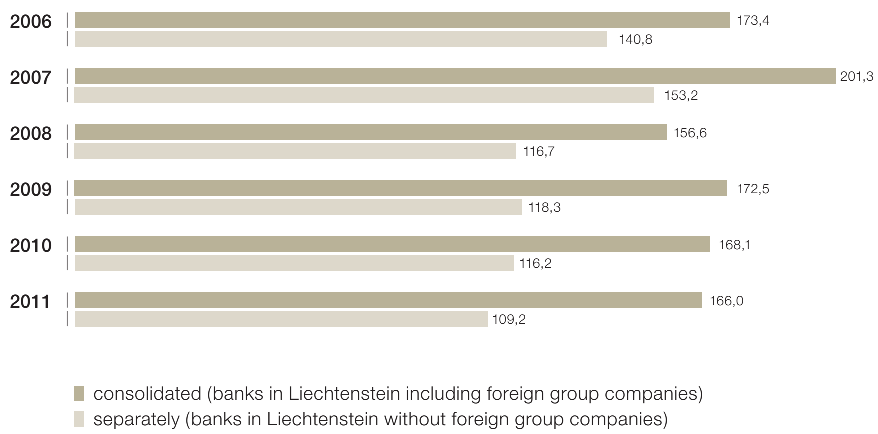


Figure 2
Client assets under management
(in billion CHF)

2009 ........ 1911

2010 ........ 1932

2011 ........ 2044

Figure 3
Number of jobs at Liechtenstein banks
without foreign group companies

The core capital ratio (Tier 1 ratio) at the end of 2011 consolidated across all banks was 17.2%. Despite a reduction of the core capital ratio by 0.6%, the capital base is extremely solid. The consistent orientation toward private banking, the high equity backing, and the conservative attitude toward new risks offer safeguards for a stable financial center and security for bank clients.

| | |
|---|---|
| 2009 | 3885 |
| 2010 | 4131 |
| 2011 | 4096 |

Figure 4
Number of jobs at Liechtenstein banks including foreign group companies

The financial sector and especially the banks are of great importance to Liechtenstein's national economy, also in terms of their role as an employer. The number of jobs at Liechtenstein banks adjusted for part-time employment rose by 112 to a total of 2,044 at the end of 2011 compared with the previous year. The number of jobs including foreign group companies, however, declined slightly by 35 to 4,096 jobs at the end of 2011, after an increase of 246 in the year 2010 had been reported.

**Regulatory developments**

Since the beginning of the global financial crisis, the banking sector has been exposed to a major regulatory push. The Basel III reform package is intended to increase the security of institutions in the event of future financial and economic crises. Already before the financial crisis, the Basel II reform package implemented equity capital requirements in Europe with the purpose of securing an appropriate capital adequacy of institutions and creating uniform competitive conditions both for lending and for the trading in credit.

*Implementation of CRD IV rules*

The new CRD IV rules, which also implement the international standards known as Basel III into EU law, is meant to make the EU banking sector more resistant. For this purpose, new capital requirements, a new governance framework, and a uniform regulatory framework are being created. These comprehensive rules will be enacted in the form of a directive to be transposed into national law and a directly applicable regulation, replacing Directives 2006/48/EC and 2006/49/EC. The CRD IV rules are to enter into force at the EU level already on 1 January 2013, and they will become fully applicable by 1 January 2019.

*Implementation of crisis management rules*

The purpose of these comprehensive rules is to establish norms for crisis management at banks and investment firms (restructuring and orderly liquidation). One of the goals is to create measures for early intervention by the competent authorities and organizational precautions for better management of crisis cases. Implementation is likely to be in the form of a directive.

*Implementation of the market abuse rules*
With the planned rules in the form of a directive and a regulation, the existing framework for safeguarding market integrity and investor protection (Market Abuse Directive 2003/6/EC) is to be adjusted to the current market reality and strengthened. An important component of the new rules is the expansion of powers of the competent authorities as well as the tightening of penalties.

*Implementation of the Mortgage Directive*
The persistent crisis on the financial markets has made weaknesses in the regulation of lending apparent. For this reason, the protection of borrowers is to be improved with a new directive. The new rules concern topics including advertising, pre-contractual information, advising, credit assessment, and early repayment.

*Foreign Account Tax Compliance Act (FATCA)*
This new US legislation provides that foreign financial intermediaries identify their US clients and supply information about them to the US tax authorities. Non-cooperating financial intermediaries are threatened with a 30% source tax on income from US financial instruments and income from the sale thereof. FATCA is scheduled to enter into force on 1 January 2013, although certain obligations arising from the comprehensive legislation will become applicable at later times.

*Administrative assistance*
The Liechtenstein administrative assistance procedure relating to securities was harmonized with the international standards of IOSCO in 2010. The legislative amendment entered into force on 1 January 2011. The time for transmitting information to the requesting foreign authorities was cut in half with the new procedure from 111 to 56 days.

| Banks | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Banking Act<br>Banking Ordinance | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Banks & Investment Firms |
| **FMA Annual Report 2011**<br>Supervision: pp. 15–21<br>Regulation: pp. 48–49 | **Liechtenstein Bankers Association**<br>www.bankenverband.li |

## 2.2 ASSET MANAGEMENT COMPANIES

The core business of asset management companies includes portfolio management and investment advisory services. They also work in securities and financial analysis as well as the acceptance and transmission of orders dealing with financial instruments. Asset management companies are not allowed to receive or hold assets by third parties.

At the end of 2011, 107 asset management companies were licensed in Liechtenstein. The number of companies active in Liechtenstein thus stayed the same. The consolidation phase starting in the years 2009 and 2010 with respect to the number of licensed asset management companies has thus continued.

Asset management companies employed 436 people at the end of 2011, 31 more than in the previous year. 11,620 client relationships (decline of 3,482 relationships since 2010) were administered in 2011, of which 8,343 were pursuant to an asset management mandate. The client assets under the management of the companies fell by CHF 2.52 billion to CHF 21.78 billion, of which CHF 16.01 billion or 73.5% (previous year: CHF 17.28 billion or 71.1%) were invested at Liechtenstein banks.

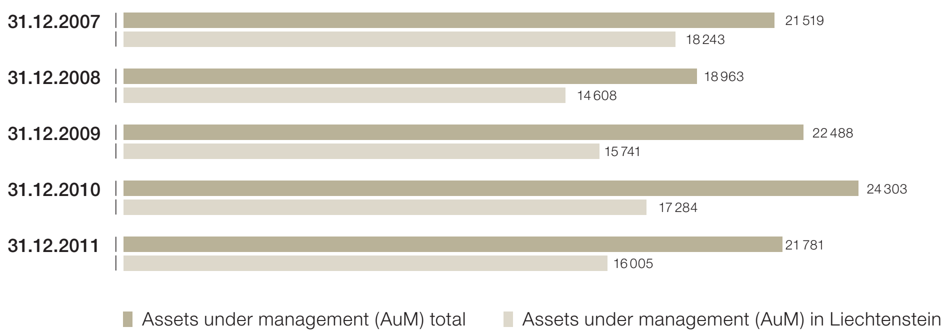


Figure 5
Development of client assets managed
by asset management companies (in million CHF)


Figure 6
Development of number of client relationships
of asset management companies

**Regulatory developments**

Asset management companies are also investment firms as defined by Directive 2004/39/EC. Accordingly, they are of central importance to implementation of the UCITS and AIFM Directives (see p. 16).

| Asset management companies | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Asset Management Act (AMA)<br>Asset Management Ordinance (AMA) | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Asset Managers |
| **FMA Annual Report 2011**<br>Supervision: pp. 26–29<br>Regulation: pp. 49–50 | **VuVL – Association of Independent Asset Managers in Liechtenstein**<br>www.vuvl.li |

## 2.3 INVESTMENT UNDERTAKINGS (FUNDS)

The Liechtenstein fund center is a young market that has grown successively in recent years. Thanks to Liechtenstein's membership in the EEA, investment undertakings benefit from free access to the European market.

Taking account of liquidations and deletions, the number of Liechtenstein investment undertakings rose by 66 to 535 as of the end of 2011. 785 individual funds were licensed as of the end of 2011. The positive development in the number of individual funds in recent years thus continued in 2011 as well. This increase by 13.3% represents a good basis for further growth.

| | |
|---|---|
| 2005 | 276 |
| 2006 | 339 |
| 2007 | 468 |
| 2008 | 560 |
| 2009 | 618 |
| 2010 | 693 |
| 2011 | 785 |

Figure 7
Development of number of individual funds of investment undertakings

Liechtenstein as a marketing location for foreign investment undertakings consolidated at a high level last year, so that 198 foreign investment undertakings with 1,034 individual funds were licensed for marketing at the end of 2011, as in the previous year.

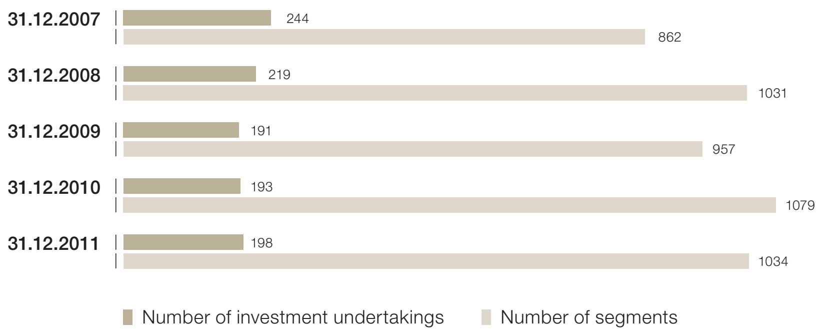


Figure 8
Number of licensed foreign investment undertakings

The net assets under management at the end of 2011 amounted to CHF 35.44 billion (previous year: CHF 37.7 billion). The decline is in part due to the currency effects in conjunction with the declining trend on the markets, but especially also organizational changes with a view to UCITS IV.

The focus in 2011 was on implementation of the new UCITS Act and the associated ordinance. Especially in terms of internal organization, the demands on management companies increased. The transition of management companies to the demands under the new UCITS Act could not be completely entirely in 2011.

| | |
|---|---|
| 2005 | 20,6 |
| 2006 | 26,6 |
| 2007 | 30,4 |
| 2008 | 26,4 |
| 2009 | 37,3 |
| 2010 | 37,7 |
| 2011 | 35,4 |

Figure 9
Development of net assets managed (in billion CHF)

## Regulatory developments

*UCITS and AIFM*

In July 2009, the EU Commission adopted the UCITS Directive 2009/65/EC (UCITS stands for undertakings for collective investment in transferable securities, which generally is equivalent to an "investment fund"). The UCITS Directive is intended to improve the EU legal framework for investment funds by eliminating bureaucratic obstacles in the cross-border movement of services, by permitting more flexible structures, and by achieving standardization of the most important information for investors. Under the new directive, a greater range of investment funds with more transparent structures and lower management costs is expected to be offered to investors.

In parallel with the UCITS Directive, the AIFM Directive 2011/61/EU was developed. The AIFM Directive aims to regulate financial actors that previously had been subject to no or only little regulation, referred to as "alternative investment fund managers", such as hedge fund managers or private equity managers. Additionally, the AIFM Directive aims to establish harmonized regulatory standards for managers and for the funds they manage as well as to improve transparency vis-à-vis investors and supervision.

The AIFM Directive is scheduled to enter into force on 22 July 2013. The associated implementation work in Liechtenstein is underway.

**Investment undertakings (funds)**

**Basic laws and ordinances (www.gesetze.li)**
Investment Undertakings Act (IUA)
Investment Undertakings Ordinance (IUO)
Law on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act)
Ordinance on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Ordinance)

**FMA Annual Report 2011**
Supervision: pp. 23–26
Regulation: pp. 49–50

**More detailed information on licenses, legal foundations, and supervision**
www.fma-li.li – Investment Undertakings

**LIFA – Liechtenstein Investment Fund Association**
www.lafv.li

## 2.4 INSURANCE UNDERTAKINGS

Liechtenstein is the only insurance center that offers insurance undertakings direct access both to the countries of the European Economic Area and to Switzerland. The basis for the development of the Liechtenstein insurance market was Liechtenstein's accession to the EEA in 1995 and the Direct Insurance Agreement with Switzerland from 1997.

Life insurers, non-life insurers, and reinsurers operate in Liechtenstein. Most significant are life insurers. Their main business is fund-linked/unit-linked life insurance. Non-life insurers cover all relevant insurance classes. All reinsurance undertakings in Liechtenstein are captives. These are company insurance undertakings offering coverage of company insurance risks for the parent undertaking.

**Development in 2011**

At the end of 2011, 21 life insurance, 14 non-life insurance, and 5 reinsurance undertaking operated with registered offices in Liechtenstein. 12 undertakings operated as captives, of which 7 as direct insurers and 5 as reinsurers. The number of insurances thus stayed constant compared with the previous year.

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| Non-life insurance | 9 | 13 | 13 | 14 | 14 | 14 | 14 |
| Life insurance | 17 | 17 | 19 | 23 | 22 | 21 | 21 |
| Reinsurance | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Total licenses** | **31** | **35** | **37** | **42** | **41** | **40** | **40** |

Figure 10
Number of insurance undertakings
(as of the end of the year)

While the capital invested for clients in connection with fund-linked or unit-linked insurances fell only slightly in comparison with the previous year from CHF 27.9 billion to CHF 27.2 billion, premium income decreased from CHF 9.41 billion in 2010 to CHF 4.80 billion in 2011. It should be taken into account in this regard that 2010, in part due to the Italian Scudo Fiscale, was by far the best business year so far in terms of premiums. Of the premiums received, CHF 4.31 billion (90%) were in life insurance, CHF 440.4 million (9%) were in non-life insurance, and CHF 47.0 million (1%) were in reinsurance.

The balance sheet total of all insurance undertakings domiciled in Liechtenstein was about CHF 30.6 billion (previous year: CHF 31.1 billion). The number of people employed by the insurance undertakings at the end of the last business year was 577. This represents an increase of 67 persons since the previous year.

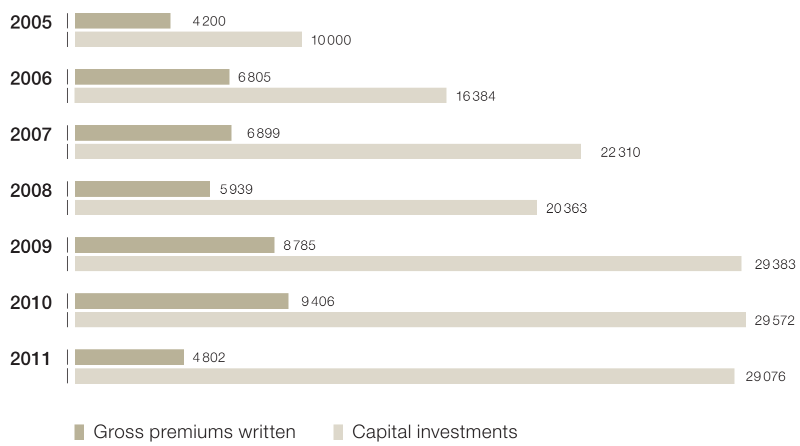


Figure 11
Development of gross premiums written and capital investments
of the insurance undertakings (in million CHF)

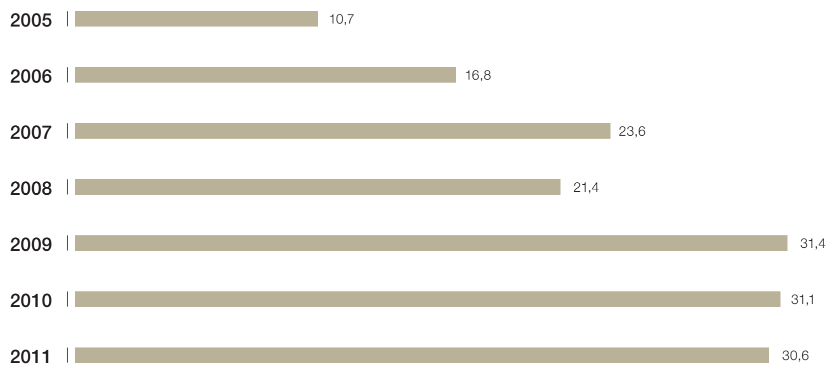


Figure 12
Development of the balance sheet total
of insurance undertakings (in million CHF)

*Cross-border movement of services*

By the end of 2011, 265 insurance undertakings from various EEA countries and Switzerland had notified the FMA of assumption of cross-border provision of services in Liechtenstein via their home country authorities.

Pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland, Liechtenstein insurance undertakings may engage in insurance business in Switzerland and vice-versa. In the area of non-life insurance, the insurance business offered in Switzerland was exclusively by way of free movement of services. The gross premiums generated by Liechtenstein insurance undertakings in Switzerland in 2010 rose by about 1% to CHF 121.6 million; 95% of these gross premiums were attributable to captives. In the life insurance business, the gross premiums earned in Switzerland decreased slightly by about 3% from CHF 551.8 million in the 2009 business year to CHF 535.3 million. 96% of life insurance business was by way of free movement of services.

The share of premiums earned in Switzerland was 7.4% of the total premiums (after Italy at 58.2% and Germany at 16.9%).

*Compulsory building insurance*

As of 31 December 2010, 17 insurance undertakings offered compulsory building insurance in Liechtenstein.

| | |
|---|---|
| United Kingdom | 0,07 |
| Germany | 1,51 |
| Italy | 5,46 |
| Liechtenstein | 0,05 |
| Austria | 0,12 |
| Sweden | 0,18 |
| other EEA countries | 0,24 |
| Switzerland | 0,54 |
| other third countries | 0,68 |

Figure 13
Gross premiums written in 2010
by country (in billion CHF)

The fire insurance sum of Liechtenstein buildings as of 31 December 2010 was CHF 16.33 billion for buildings (2009: CHF 15.74 billion), CHF 1.75 billion for household effects (2009: CHF 1.75 billion) and CHF 4.81 billion for other moveable objects (2009: CHF 4.62 billion). In total, the fire insurance sum in 2010 amounted to CHF 22.89 billion (2009: CHF 22.11 billion).

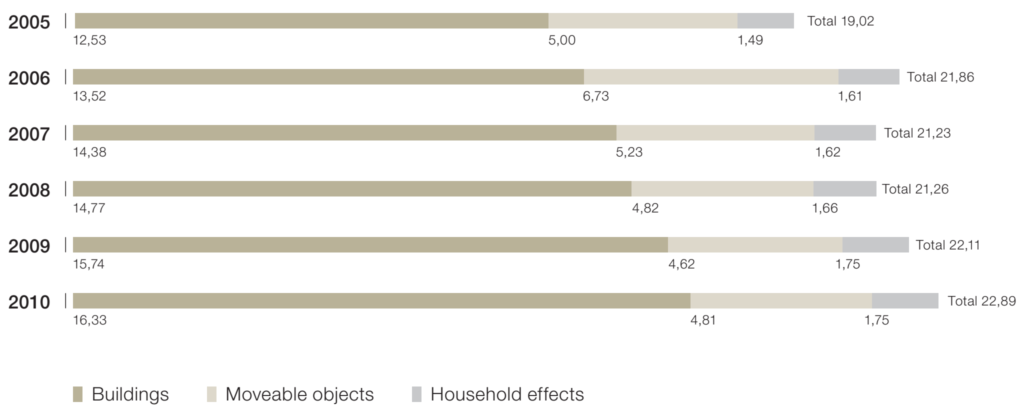


Figure 14
Fire insurance sum of Liechtenstein buildings (in billion CHF)

The premium income for fire insurance in 2010 was CHF 8.96 million (2009: CHF 8.42 million). In total, CHF 18.29 million (2009: CHF 17.38 million) in premiums was earned in compulsory building insurance in 2010. Claims payments in the amount of CHF 2.94 million were made (CHF 2.25 million for fire damage and CHF 0.69 million for damage from natural hazards).

**Regulatory developments**

*Solvency II – Directive 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance*
Insurance supervision law in Europe is undergoing a fundamental reform with Solvency II. The risk-oriented approach of Solvency II entails a new approach to calculation of the own funds of insurance undertakings and a reform of the available supervisory measures and instruments. The supervisory provisions under Solvency II are based more strongly than before on qualitative requirements. Additionally, the supervision of insurance groups will be governed by new rules.

The Solvency II framework directive is currently being implemented into national law in the countries of the European Economic Area. In Liechtenstein, the official consultation report was adopted by the Government in October 2011. The consultation period ended on 20 January 2012. In addition to the total revision of the Insurance Supervision Act, the proposal encompasses a partial revision of other special laws: the International Insurance Contract Act, the Insurance Contract Act, the Insurance Mediation Act, the Pension Funds Act, and the Law on Persons and Companies.

Elaboration of the Insurance Supervision Ordinance also began in 2011. The Solvency II Directive is to be implemented into Liechtenstein by 1 January 2013. The EU's schedule for adoption of the Omnibus II Directive, which is to further specify the powers of the European supervisory authorities and will entail changes to the framework directive, as well as for enactment of the implementing measures continues to be delayed.

*Implementation of Directive 2011/89/EU as regards the supplementary supervision of financial entities in a financial conglomerate*
Directive 2011/87/EU amends the Financial Conglomerates Directive, the Insurance Group Directive, the Solvency II Directive, and the Credit Institutions Directive. The goal of the revision of these directives is to provide a sensible expansion of financial conglomerates supervision, to ensure comprehensive and appropriate supervision of financial conglomerates, and to close gaps identified with respect to such supervision. Implementation of this directive requires amendments to the Financial Conglomerates Act, the Banking Act, and the Insurance Supervision Act.

**Insurance undertakings**

**Basic laws and ordinances (www.gesetze.li)**
Insurance Supervision Act (ISA)
Insurance Supervision Ordinance (ISO)
Insurance Contract Act (ICA)

**FMA Annual Report 2011**
Supervision: pp. 30–34
Regulation: pp. 50–52

**More detailed information on licenses, legal foundations, and supervision**
www.fma-li.li – Insurance Undertakings

**LVV – Liechtenstein Insurance Association**
www.versicherungsverband.li

## 2.5 INSURANCE INTERMEDIARIES

At the end of 2011, the FMA supervised a total of 69 licensed and registered insurance intermediaries, of which 62 were legal persons, 4 sole proprietorships, and 3 natural persons. Of the 69 registered insurance intermediaries, 56 work as insurance brokers, and 13 as insurance agents.

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Brokers | 25 | 50 | 57 | 58 | 56 |
| Agents | 10 | 14 | 13 | 13 | 13 |
| **Total licenses** | **35** | **64** | **70** | **71** | **69** |

Figure 15
Registered insurance intermediaries under the supervision of the FMA

Cross-border business by way of the free movement of services was primarily conducted in Switzerland (20 insurance intermediaries) and in Germany (18). 12 insurance intermediaries were also active in Austria and only one in Italy. So far, no insurance intermediaries have operated pursuant to the freedom of establishment.

According to the annual reports for the 2010 business year, the gross income generated by insurance mediation totaled CHF 20.9 million, of which 36% was generated in life insurance and 64% in non-life insurance. Only two insurance intermediaries worked in reinsurance. The income generated there made up less than 0.5% of the total income. Only 1% of the abovementioned gross income generated in insurance mediation were due to inducements (fee income) on the part of policyholders.

As of 31 December 2010, a total of 125 people were employed with Liechtenstein insurance mediation undertakings. Of these, 68 worked directly as insurance intermediaries, and 57 employees performed administrative work.

**Regulatory developments**
The draft revised Directive 2002/92/EC on insurance mediation is expected in autumn 2011. The general goal is to further strengthen the interests of insured persons. Discussion points during the revision of the directive are the inclusion of employed field staff, disclosure of distribution fees, a new definition of the term “intermediary”, and modifications of the information and advisory requirements.

| Insurance intermediaries | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Insurance Mediation Act (IMA)<br>Insurance Mediation Ordinance (IMO) | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Insurance Intermediaries |
| **FMA Annual Report 2011**<br>Supervision: pp. 35–36 | **LIBA – Liechtenstein Insurance Brokers Association**<br>Internet: www.liba.li |

## 2.6 PENSION SCHEMES

The Liechtenstein pension provision system is based on three pillars: state pension provision (1st pillar), occupational pension provision (2nd pillar), and private pension provision (3rd pillar). The pension schemes in Liechtenstein administer occupational pension provision. Together with the first pillar, this second pillar protects the insured employees from the economic consequences of old age, disability, and death. It makes old age, disability, and survivors' payments.

At the end of 2011, 29 pension schemes were under the supervision of the FMA in Liechtenstein (previous year: 33), of which 8 were collective foundations, 20 company pension schemes, and 1 the pension insurance for state employees.

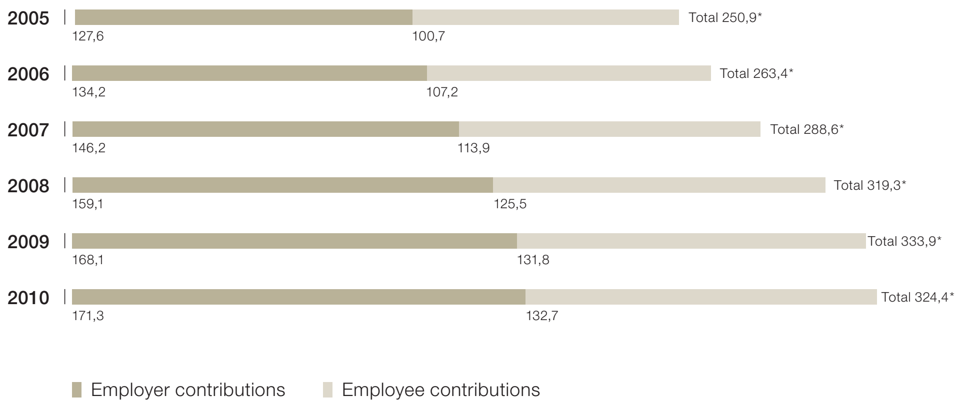


Figure 16
Development of employer and employee contributions (in million CHF)

* Total including special and supplementary contributions as well as deposits to employer reserves

Due to the developments on the financial markets, seven schemes had a funding ratio of less than 100% at the end of 2011. While in five cases, the failure to meet the required funding ratio was insignificant (funding ratio of at least 90%), the restructuring measures in two cases are being closely accompanied and supervised by the FMA in cooperation with the pension scheme.

In 2010, the contributions of employees amounted to CHF 132.7 million and the contributions of employers to CHF 171.3 million for a total of CHF 324.4 million (including special and supplementary contributions as well as deposits to employer contribution reserves). The number of insured persons as of 31 December 2010 was 36,705. 20,541 insured persons (56%) were insured by collective foundations, 12,015 (33%) by company pension schemes, and 4,149 (11%) by the pension insurance for state employees.

Pension capital and technical provisions as of 31 December 2010 amounted to CHF 4.12 billion (previous year: CHF 3.89 billion). Of this amount, CHF 1.21 billion made up the pension capital of collective foundations, CHF 2.12 billion of company pension schemes, and CHF 0.79 billion of the pension insurance for state employees. The interest rates on the pension capital fluctuated between 0% and 5.0% for the pension schemes in 2010.

| | |
|---|---|
| 2005 | 2,92 |
| 2006 | 3,08 |
| 2007 | 3,34 |
| 2008 | 3,66 |
| 2009 | 3,89 |
| 2010 | 4,12 |

Figure 17
Development of pension capital
(in billion CHF)

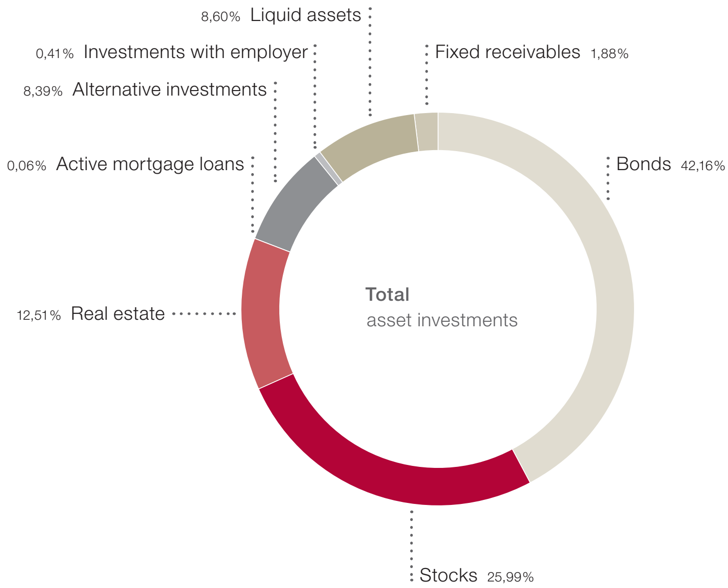


Figure 18
Distribution of asset investments in 2010 by asset class

*Vested benefits accounts*

In the 2011 reporting year, three banks maintained vested benefits accounts. As of 31 December 2011, there was a total of 9,869 (2010: 8,723) such accounts with managed capital of CHF 249.6 million (2010: CHF 210.8 million). The average amount of vested benefits amounted to CHF 25,294 (2010: CHF 24,166). The interest rate on the vested benefits accounts was between 1.25% and 1.50% in 2010.

**Regulatory developments**

*Implementation of Directive 2006/54/EC (Equal Treatment Directive)*

The main goal of the directive is to create more legal certainty in the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation. One of the purposes of the directive is to implement the principle of equal treatment also with regard to occupational social security schemes. Implementation of the directive in Liechtenstein was undertaken mainly by amending the Gender Equality Act. Any discrimination in the field of occupational provision with respect to contribution requirements, the calculation of contributions, and the calculation of benefits is prohibited. In voluntary occupational pension provision, differing benefits continue to be permissible if they take account of actuarial calculation factors which may differ depending on gender.

*Registered Partnership Act*

The Registered Partnership Act was adopted by a popular vote on 19 June 2011. The Act deems registered partnerships equivalent to marriage including with respect to occupational pension provision.

| Pension schemes | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Occupational Pensions Act (OPA)<br>Occupational Pensions Ordinance (OPO) | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Pension Schemes |
| **FMA Annual Report 2011**<br>Supervision: pp. 37 – 39<br>Regulation: pp. 50 – 51 | **Liechtenstein Pension Scheme Association**<br>c/o Bruno Matt, LLB AG, Städtle 44, 9490 Vaduz |

## 2.7 PENSION FUNDS

Pension funds are institutions offering occupational retirement provision in Liechtenstein or from Liechtenstein in the countries of the European Economic Area (EEA). As a member of the EEA, Liechtenstein has implemented the EU Pension Funds Directive. Liechtenstein pensions are accordingly able to offer their products in all countries of the EEA by notifying the relevant supervisory authority. Pension funds do not operate in occupational pension provision under the Occupational Pensions Act.

6 pension funds are currently licensed in Liechtenstein. The provisional reports indicated that about CHF 78.4 million in gross premiums were earned in the 2011 business year (2010: CHF 76.8 million).

**Regulatory developments**
At the European level, the directive on institutions for occupational retirement provision is currently being revised. In Liechtenstein, a working group is also working on optimization of the pension funds legislation. These adjustments to strengthen the Liechtenstein pension fund center will be transposed into national law together with the changes arising from revision of the directive.

| Pension funds | |
|---|---|
| **Basic laws and ordinance (www.gesetze.li)**<br>Pension Funds Act (PFA)<br>Pension Funds Ordinance (PFO) | **FMA Annual Report 2011**<br>Supervision: pp. 39 – 40<br>Regulation: pp. 50 – 51 |
| | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Occupational Pension Institutions |

## 2.8 PROFESSIONAL TRUSTEES AND TRUST COMPANIES

The activities of professional trustees include the formation of legal persons, the performance of management mandates, accounting and controlling, as well as financial, economic, and tax advisory services. The FMA is responsible for due diligence supervision of professional trustees as well as admission to examinations and licensing for their work in the financial center.

As of 31 December 2011, the number of licenses under the Professional Trustees Act was 392 (2010: 392). These include 79 professional trustees, 21 trustees with a restricted license, 263 trust companies, and 29 trust companies with a restricted license.

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| Professional trustees | 83 | 77 | 79 |
| Professional trustees with restricted license | 26 | 23 | 21 |
| Trust companies | 262 | 264 | 263 |
| Trust companies with restricted license | 24 | 28 | 29 |
| **TOTAL** | **395** | **392** | **392** |

Figure 19
Professional trustees
and trust companies

### Regulatory developments

*Supervision of professional trustees*
The regulatory project "Improvement of the supervision of professional trustees" was launched in 2011. The goal is to strengthen the reputation of the Liechtenstein fiduciary sector and its international acceptance through credible and modern regulation and more effective supervision. In December 2011, the Liechtenstein Association of Professional Trustees (LAPT) and the FMA issued a joint press release providing information on their agreement concerning the basic points for improved regulation and more effective supervision.

The focus is on stronger supervision by the authority with respect to issuing of licenses, permanent compliance with the licensing conditions, and enforcement of supervision, including withdrawal of licenses. The project work will be continued jointly in the year 2012. A draft proposal to amend the Professional Trustees Act was submitted to the Government at the beginning of April.

| Professional trustees and trust companies | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Professional Trustees Act (PTA)<br>Due Diligence Act (DDA)<br>Due Diligence Ordinance (DDO)<br><br>**FMA Annual Report 2011**<br>Supervision: pp. 40–45<br>Regulation: pp. 54–55 | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Professional Trustees<br><br>**Liechtenstein Association of Professional Trustees**<br>www.thv.li |

## 2.9 AUDITORS AND AUDITING COMPANIES

As of 31 December 2011, 23 commercially operating auditors and 24 auditing companies were subject to supervision by the FMA. By way of the free movement of services, the number of commercially operating auditors was 9 and the number of auditing companies was 22. The FMA is responsible for due diligence supervision of auditors and auditing companies. The FMA also exercises disciplinary powers over auditors.

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| Auditors | 24 | 25 | 23 |
| Auditing companies | 26 | 26 | 24 |
| Auditors engaging in free movement of services | 5 | 6 | 9 |
| Auditing companies engaging in free movement of services | 23 | 22 | 22 |
| **TOTAL** | **78** | **79** | **78** |

Figure 20
Auditors and
auditing companies

### Regulatory developments

*Implementing ordinance to the Auditors and Auditing Companies Act (AACA)*
On the basis of the amendments to the AACA that entered into force on 1 February 2011, an implementing ordinance to further specify quality assurance inspections relating to the performance of annual audits will be developed in 2012. The ordinance is to enter into force in the 3rd quarter of 2012.

| Auditors and auditing companies | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Auditors and Auditing Companies Act (AACA)<br><br>**FMA Annual Report 2011**<br>Supervision: pp. 40–45<br>Regulation: p. 55 | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Auditors<br><br>**Liechtenstein Association of Auditors (LAA)**<br>www.wpv.li |

## 2.10 LAWYERS AND LAW FIRMS

As of 31 December 2011, the number of persons licensed under the Lawyers Act was 342 (2010: 341). This number includes 164 lawyers, 61 Liechtenstein lawyers eligible for registration, 27 European lawyers established in Liechtenstein, 56 apprentice lawyers, 29 law firms, 1 branch of a law firm, and 4 legal agents. The FMA is responsible for due diligence supervision.

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| Lawyers | 147 | 150 | 164 |
| Liechtenstein lawyers eligible for registration | 60 | 66 | 61 |
| European lawyers established in Liechtenstein | 25 | 25 | 27 |
| Law firms | 28 | 28 | 29 |
| Branches of law firms | 1 | 1 | 1 |
| Apprentice lawyers | 66 | 67 | 56 |
| Legal agents | 5 | 4 | 4 |
| **TOTAL** | **332** | **341** | **342** |

Figure 21
Lawyers, law firms,
and other categories

| Lawyers and law firms | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Lawyers Act<br><br>**FMA Annual Report 2011**<br>Supervision: pp. 42–45 | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Lawyers<br><br>**Liechtenstein Chamber of Lawyers**<br>www.lirak.li |

## 2.11 PATENT LAWYERS AND PATENT LAW FIRMS

Patent lawyers and patent law firms offer professional advice and representation in the fields of intellectual property and commercial property rights. The FMA is responsible for due diligence supervision.

The number of patent lawyers and patent law firms remained the same. The total number of persons licensed under the Patent Lawyers Act was 12 as of 31 December 2011.

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| Patent lawyers | 10 | 9 | 9 |
| Patent law firms | 3 | 3 | 3 |
| **TOTAL** | **13** | **12** | **12** |

Figure 22
Patent lawyers and patent law firms

| Patent lawyers and patent law firms | |
|---|---|
| **Basic laws and ordinances (www.gesetze.li)**<br>Patent Lawyers Act (PLA)<br><br>**FMA Annual Report 2011**<br>Supervision: pp. 42–45 | **More detailed information on licenses, legal foundations, and supervision**<br>www.fma-li.li – Patent Lawyers |

## 2.12 FURTHER FINANCIAL INTERMEDIARIES

The FMA Liechtenstein is also mandated with due diligence supervision of the following financial intermediaries:

- persons with certifications under article 180a PGR
- exchange offices
- real estate brokers
- dealers in goods
- other persons subject to due diligence

More detailed information on licenses, legal foundations, and supervision is available at www.fma-li.li – Further Financial Intermediaries.

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