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## *81st Annual Report*

**Board of Directors**

Lucien Tissot, President, La Chaux-de-Fonds  
Willy Borer, Zurich  
Georges-Henri Meylan, Le Brassus  
Jean-Pierre Mœsch, La Chaux-de-Fonds  
Claude Ray, Montezillon  
Werner Wettstein, Magden  
Jörg Wyssbrod, Biel-Bienne

**Managers**

Edouard Fragnière, Manager  
Peter Hofmeister, Deputy Manager  
Colette Schärer, Executive Assistant, Signing officer

**Signing Officers**

Philippe Gozel, Underwriting Manager  
Markus Hürlimann, Zurich Business Unit

**Commercial Representatives**

Nadège Aebischer-Vadi, Accounting Manager  
Maria-Bélen Cambeiro, Claims Manager  
Stefano Fenini, Zurich Business Unit  
Henriette Mischler, External Relations Manager

**Regional Offices**

French-speaking Switzerland: Eric Pachoud, Manager  
German-speaking Switzerland: Robert Steffen, Manager

**Auditors**

PricewaterhouseCoopers SA, Lausanne



## OUTLINE

- **Marked slowdown in the economy, with turmoil on the stock markets and continuing downturn in our own sector. Situation further exacerbated by the terrorist attacks on 11 September, which had a knock-on effect on the reinsurance markets.**
- **TSM turned in a good performance in this difficult climate, with results remaining stable, and a strategy aimed at repositioning itself on the market. This should open up positive perspectives in the future.**
- **Lower claims rate, but vigilance is required more than ever in the face of delinquency and bad risks.**

## GENERAL SITUATION

2001 was obviously dominated by the shock waves around the world triggered by the unprecedented terrorist attack against the United States on 11 September. Among the many well-documented effects of this tragic event, the one that affects the insurance industry in general, and TSM in particular, will be felt for some time to come: it is the noticeable tightening of the reinsurance market. Reaction among reinsurers has been one of varying degrees of concern, fear and panic, but across the board the result has been a more or less brutal withdrawal. Contract renewals are now negotiated much more keenly than ever before, and significant restructurings had to be conceded, involving more onerous financial conditions, the costs of which will be borne by our customers as well as ourselves. Independently of 11 September, 2001 was in stark contrast to the euphoria that dominated the last year of the 20th century. The early signs of malfunction began to show towards the end of 2000 and continued apace in 2001, particularly in the United States, but then too in Europe and the rest of the world. The sudden slowdown, which was particularly acute in sectors such as telecommunications and the airline industry, impacted the entire economy. It was accompanied by a general sluggishness on the stock markets, which lost ground consistently, with tech stocks taking the brunt of the losses. Whether the beginning of a recession or just a soft landing, the experts differ widely in their assessment of the situation. The most optimistic among them see it as a positive development, pointing to weak inflation and very low interest rates.

Despite this difficult climate, TSM turned in a satisfactory set of results. The insurance industry's regulatory body, the Federal Office of Private Insurance, carried out repeated inspections across the industry, reflecting its concern over the financial stability of companies in light of worsening stock market valuations. On each occasion TSM showed a solid position, bolstered by excellent reserves and a strong management policy. It closed the year on a satisfactory note and, most importantly, the Company has implemented a strategic development plan which will significantly improve its position and perspectives. For TSM, the focal point of the year was both constructive and promising - it was the official and successful opening of its new Zurich Business Unit (ZBU) in December. Although it is too early to calculate the financial impact of this Unit, it marks the first concrete step in the Company's repositioning strategy, mentioned in the Annual Report last year. It is part of a restructuring programme aimed at reinforcing TSM's capabilities and broadening its market. Peter Hofmeester, who is managing the Unit, has earned himself an excellent reputation in the industry, and has now joined our management team. One of the primary objectives of the ZBU is to open TSM to large-scale brokerage.



## PREMIUMS

In a market that remains characterised by fierce competition, unreasonable pricing pressures and therefore uncertain profitability, TSM, in addition, continued to suffer from the trend towards industrial consolidation. This has the effect of distancing the decision-making centres of our traditional customers and deprives us of insurance portfolios that had previously been built around close relationships. Against this tough backdrop, TSM has succeeded in remaining on track, with total premiums received rising 3.6% to CHF 10.628 million, CHF 6.768 million of which were in own-account. This performance does not yet reflect the strategic repositioning mentioned earlier, but is essentially the result of our partnership policy. It also takes account of the continuing contraction of the share of «direct» insurance concluded with our customers, which declined 0.3% to 88.8%, the risk underwritten in reinsurance making up the remainder. The decade-long arrangement with La Mobilière insurance company to handle «transportation» business continues to be satisfactory to both parties. The partnership between TSM and the Vaudoise Assurance, set up in mid-1998, has emerged from its «running-in» stage and is now progressing smoothly; it still has strong potential. In accordance with our policy of financial conservatism, we have ceded 36.3% of our total issued premiums to our reinsurers. This focus on conservatism also led us to show great restraint when, towards the end of the year, we were faced with a significant rise in the number of proposals for us to underwrite excessive risks. In the face of this other effect of 11 September, we preferred to forego any spectacular increase in our premium collection which could also have cost us, next year, a marked rise in claims statistics...

## CLAIMS

2001 was a good year with respect to claims, the number and size of which remained relatively moderate. However, the financial results do not provide a complete picture of the situation. All the early part of the year was affected by the high payouts linked to major claims filed during what we called «Black October» 2000. In gross terms, i.e. including the reinsurers' share, the rate of claims showed a slight decline from 44% to 43%. In net terms (rate of claims paid in regard to premiums in own account), it stood at 45%, the same level as in 2000. Total claims paid reached CHF 4.583 million (2000: CHF 4.496 million) after deduction of the share of co-insurers, CHF 3.026 million of which was borne by TSM with the remainder being reinsured.

With regard to the nature of the claims, there has been a noticeable trend from one year to the next: very substantial damages in major transportation are becoming rarer as a result of growing professionalism. However, delinquency is gaining ground, particularly in small volume transport, even if it is not always possible to finger precisely. Once again there appears to be almost a bipolarisation of causes of this phenomena. On the one hand, the delinquents are becoming increasingly daring, determined and organised – including, often, inside jobs – and on the other, there is a bewildering persistence in naive, imprudent and negligent behaviour, which greatly facilitates the task of even second-rate offenders. Just one example – of many – of really anachronistic naivety in this day and age, is that of the representative who calmly went into the public lavatories in a strange city and put his case containing his precious collections down behind him while he did his business! Needless to say, the case disappeared even before he had time to finish what he had started...



Such negligence was obviously taken into account when settling the claim. Certainly, market developments and social context will increasingly force policyholders to face up to their own responsibilities. Among the most costly claims during the year was that of an automatic packaging chain that was smashed falling from a hoist during transshipment (CHF 275,000). Only around 40% of the damage could be recovered from the carrier's civil liability insurance, which highlights the need for transportation insurance cover. There was also the case of the astute substitution of a shipment of watches to Mexico. The addressee was unpleasantly surprised to find his package contained nothing but stones, which were certainly not of the precious variety! (CHF 233,000). Somewhat less sophisticated, but also costly, was the snatch of a jewellery representative's bag, in Italy (CHF 176,000).

## GENERAL EXPENSES

Cost saving efforts remained very much on the agenda, but 2001 marked an exceptional rise in our general expenses. It was linked primarily to two exceptional investments - those required to launch the new Zurich Business Unit, and those incurred in updating our computing system. This increase amounted to CHF 551,000 gross (+12.8%), negatively impacting general expenses which rose 45.7% compared to premiums received. A sharp reduction in computing costs from the second half of 2002, the implementation of a general cost cutting policy, and the expected development of premium collection by the ZBU, should enable us to bring the rate back below the 40% mark from next year.

## INVESTMENT INCOME

Although very much higher than in prior years, at CHF 3.152 million, investment income does not reflect the reality of a sharply lower year on the stock markets. This substantial increase arose from the sale, early in the year, of shares in stock positions that exposed our portfolio to excessive risk, and which at the same time presented a good opportunity for profit taking. This was in line with TSM's conservative investment policy, and despite a morose trading climate and the profit taking, it was able to maintain a very comfortable amount of unrealised gains in its financial portfolio.

At 31 December 2001, the investment structure was as follows:

Loan notes and mortgage bonds	CHF 18,888,145	(54.7%)
Stocks and shares in investment funds	CHF 7,430,888	(21.5%)
Mortgages	CHF 2,600,448	(7.5%)
Land and buildings	CHF 1,937,000	(5.6%)
Cash and term deposits	CHF 3,708,733	(10.7%)
Total	CHF 34 565 214	(100.0%)

Our valuation strategy on the balance sheet remains steadfastly conservative. At year-end 2001, the nominal value of loan notes and mortgage bonds stood at CHF 20.6 million and the market value of stocks and shares in investment funds was CHF 16.7 million.



## RESULTS

The 2001 period ended with a technical loss of CHF 192,497, against a surplus of CHF 287,659 in the previous year. These results are nonetheless highly satisfactory, since they include exceptional general expenses incurred on investments in the future expansion of the company, particularly the creation of our new unit in Zurich. The technical result excluding exceptionals would have been unchanged from the previous year. In line with its policy of conservatism, TSM took profits on the sale of shares to significantly bolster its technical reserves of CHF 1,458,853.

Profit, after reserves, amortisation and taxes reached CHF 1,303,274.

### APPROPRIATION OF NET INCOME

Distributable earnings before profit carry-forward was as follows:

	2001 CHF	2000 CHF
Net profit	1 303 274	1 419 332
Profit carried forward	73 219	83 887
<b>Distributable earnings</b>	<b>1 376 493</b>	<b>1 503 219</b>

At its meeting of 15 March 2002, the Board of Directors decided to appropriate net income as follows:

	2001 CHF	2000 CHF
Policy-holders' share of profit	800 000	900 000
Allocations		
• legal reserves	335 000	300 000
• special reserves	200 000	130 000
• TSM Foundation	0	100 000
Total allocations	1 335 000	1 430 000
<b>Carried forward</b>	<b>41 493</b>	<b>73 219</b>

At 31 December 2001, insurance technical reserves stood at CHF 15,200,000 representing 225% of premiums produced on own account. After appropriation of earnings, shareholders' equity stood at CHF 16,041,493. Guarantees totalled CHF 31.2 million, representing no less than 460% of premiums in own account.

# OPERATING ACCOUNT

(at 31 December 2001)

	2001		2000	
	CHF	CHF	CHF	CHF
Premiums received	10 628 532		10 256 636	
Charged to reinsurers	-3 860 226		-3 603 112	
Premiums for own account	6 768 306	6 768 306	6 653 524	6 653 524
Claims paid	4 583 530		4 496 050	
Charged to reinsurers	-1 557 650		-1 498 714	
Claims for own account	3 025 880		2 997 336	
Movement on reserve for outstanding claims	0		0	
Claims incurred for own account	3 025 880	-3 025 880	2 997 336	-2 997 336
Gross general expenses	4 854 766		4 304 324	
Charged to reinsurers	-919 843		-935 795	
Expenses for own account	3 934 923	-3 934 923	3 368 529	-3 368 529
Technical result		-192 497		287 659
Investment income		3 218 414		1 818 712
Additional technical provisions/ reserve for short-term investments		-1 458 853		-400 000
Depreciation and amortisation		-78 254		-66 000
Taxes		-185 536		-221 039
<b>Net profit</b>		<b>1 303 274</b>		<b>1 419 332</b>

# BALANCE SHEET AT 31 DECEMBER 2001

(after appropriation)

	2001 CHF	2000 CHF
<b>ASSETS</b>		
Cash and cash equivalents	178 724	317 064
Cash at bank and term deposits	3 530 009	935 184
Assets with policyholders	591 200	684 211
Assets with insurance and reinsurance companies	122 998	1 212 481
Loan notes and mortgage bonds	18 888 145	20 301 784
Stocks and shares in investment funds	7 430 888	5 140 878
Mortgage securities	2 600 448	3 015 326
Land and buildings	1 937 000	2 003 000
Other assets	391 337	257 902
	<b>35 670 749</b>	<b>33 867 829</b>
<b>LIABILITIES</b>		
Commitments to insurance and reinsurance companies	693 844	405 691
Contingency provisions	5 905 000	5 905 000
Provisions for outstanding claims	5 750 000	5 750 000
Other technical provisions	3 545 000	1 863 971
Other liabilities	3 735 412	4 404 948
Legal reserves	8 700 000	8 365 000
Special reserves	7 300 000	7 100 000
Profit and loss	41 493	73 219
	<b>35 670 749</b>	<b>33 867 829</b>

## APPENDICES 2001 AND 2000

	2001 CHF	2000 CHF
<b>Fire insurance value of tangible fixed assets:</b>		
Corporate building (replacement value)	2 400 000	2 400 000
Investment building (basic value + 75% supplement)	320 900	320 900
Furniture, equipment and installations (replacement value)	2 060 000	2 060 000
<b>Restriction on ownership for own commitments:</b>	<b>reminder</b>	<b>reminder</b>

Securities allocated to «tied fortune» deposited with the UBS SA and Banque Cantonale Neuchâteloise banks, in compliance with the Law on Indemnity Insurance («Loi sur l'assurance dommages» - LAD) and directives of the Federal Office of Private Insurance («Office fédéral des assurances privées - OFAP»).

**Comparable Figures**  
Certain items related to fiscal 2000 have been reclassified to make the presentation correspond with that of 2001.

## ACKNOWLEDGEMENTS

Behind the figures, facts and opinions in these pages lie the work and relationships of men and women. TSM has always placed prime importance on this human factor, because it is truly at the heart of our activities and it is that which gives them all their meaning. This has been particularly true in the important reorganising and repositioning process undertaken by TSM these past few years, which culminated last autumn with the impressive opening of our Zurich Business Unit. The quality and motivation of the new team in Zurich headed by Peter Hofmeester, and the quality and motivation of the other employees who have carried out their role, old or new, in the organisational structure of the company, have been and will be decisive to TSM's continuing success.

To conclude this year, we therefore wish to express our sincere and warmest thanks to the whole TSM team for its ongoing commitment.

Our gratitude also goes to the members of our Board of Directors for their unwavering and much appreciated involvement, support, will and insight.

Finally, we wish to thank our customers, for the confidence they have in us and for the excellent relationships we are able to maintain with them.

We are committed, all of us, to building on and developing these vital assets.

The TSM Management  
Edouard Fragnière

Report of the statutory auditors  
to the general meeting of  
TSM, Compagnie d'Assurances Transports  
La Chaux-de-Fonds

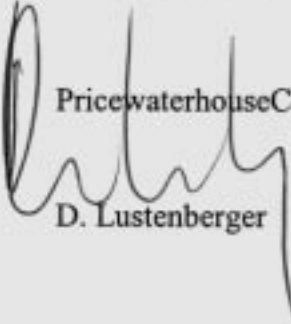
As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of TSM, Compagnie d'Assurances Transports for the year ended 31 December 2001.


These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

  
PricewaterhouseCoopers SA  
D. Lustenberger

  
S. Poulin

Lausanne, 1<sup>er</sup> March 2002

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

# CONTACTS

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