

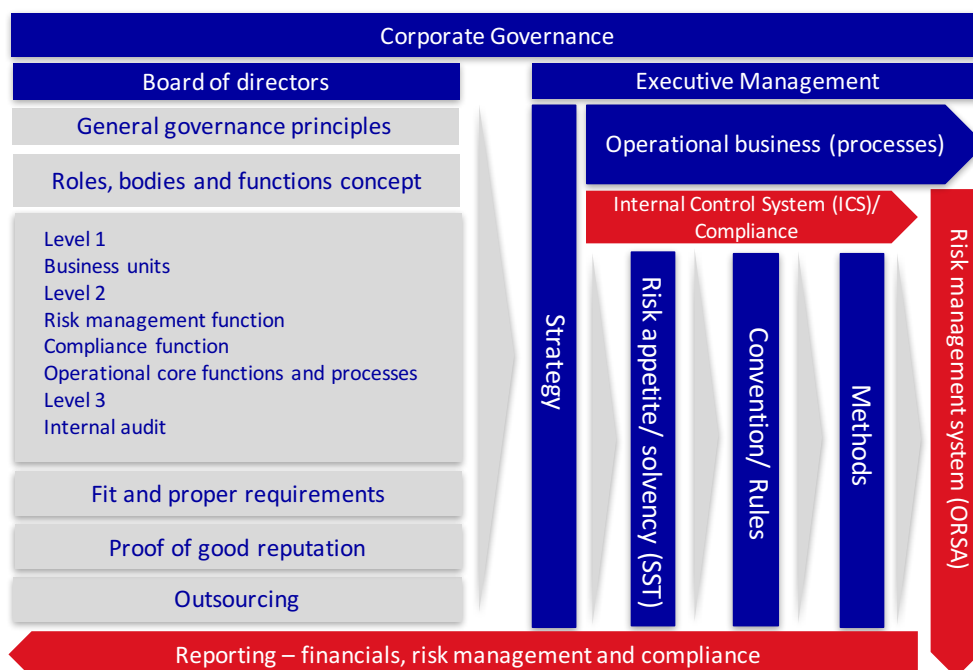
## FINMA: Strong Corporate Governance is gaining in importance

**30. June 2017 – FINMA wants more quality in the strategic corporate management. The Swiss Financial Market Supervisory Authority, has revised its supervisory practice in respect of corporate governance. The authority's new circular introduces new regulations for the composition of the board of directors, specifically in connection with the number of its members, its independence and its organisation; in this regard, the obligation to set up committees for specified categories of insurance companies is also stipulated. The circular is in force since January 2017.**

*Principles-based  
specification of  
requirements for the  
corporate management*

### Supervisory focus

The main objective of the revision is to establish principle-based supervisory practice in company-wide corporate governance. By issuing the new circular, FINMA aims to establish functional equilibrium between the company's various governing bodies (*checks and balances*), adequate transparency regarding internal company procedures and transactions, and coordination between the company's objectives and the expectations of the various stakeholder groups. In a new move to ensure proportionality, FINMA is gearing the assessment of the Board to the nature, size and complexity of the organisation. At Board level, the authority is aiming to ensure that the management's character attributes and expertise are guaranteed as well as its good reputation in order to provide a good assurance that the management function is performed correctly.



## What is new?

In its new circular, FINMA establishes the principles that must govern the composition of the board of directors and defines how the insurance companies' risk management and internal control system – regarded as indispensable elements of irreproachable business activity – must be integrated within the organisation. In accordance with the international core principles of the IAIS (International Association of Insurance Supervisors) (ICP 7 Corporate Governance, and ICP 8 Risk Management and Internal Controls), implementation of the corporate governance principles is required at legal entity level regardless of whether the entity in question is a group, a conglomerate or a standalone unit.

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*Principles of effective  
corporate management*

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## What is important?

As a new feature, responsibility for identifying the legal and regulatory obligations of the insurance company and for assessing the related compliance risks no longer rests solely with the Compliance function but with the entire insurance company. As the Compliance function performs an independent control role in the governance system, responsibility for setting up effective compliance processes should not fall within its direct area of responsibility but, instead, should be assigned to the insurance company as a whole (with the board of directors taking ultimate responsibility). Another key task of the Compliance function is to assist the board of directors with meeting its responsibility for overall supervision of the insurance company's adherence to laws, articles of incorporation, regulations, instructions and policies by providing it with the relevant information.

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*As a new feature, compliance  
now falls within the  
responsibilities of the  
entire company.*

*Internal audit must carry out  
periodic audits of all areas of  
business activity*

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Furthermore, the requirement for Internal Audit to carry out audits of all areas of business activity and all the insurance company's functions at appropriate intervals has been withdrawn. Emphasis has been placed on risk-oriented audit planning and implementation. In this context, the corporate governance principles stated in the circular constitute the underlying principles for the organisation, and for control and monitoring of the organisation, and they are applicable to all areas, functions and activities of an insurance company.

## What requires your attention?

Circular FINMA-RS 17/02 'Corporate governance for insurers' is also applicable to outsourcing of all types. It therefore applies equally to outsourcing in cases where authorisation is or is not required. The risks must be identified, quantified, controlled, monitored and reported from the perspective of general requirements for the risk management system. In this context, we refer to our Newsletter 2017/01 on Outsourcing.

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*Governance of outsourced  
processes requires increased  
attention, especially as  
regards the distribution  
function*

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### Conclusions

The fact that the new supervisory requirements stipulate clear allocation and documentation of duties, authorities, responsibilities and reporting paths (Rz 7) calls for operational practice to be reconsidered. In particular, the aim should be to focus attention on the clear separation between operational and control activities by implementing suitable measures (Rz 8) and to ensure that internal reporting processes are established in order to forward information to all relevant individuals and units in the company (Rz 9). The regulator also expects documentation of material decisions (including measures) (Rz 10) and the establishment of an effective, company-wide risk management system and an internal control system (ICS) including the requisite control functions (Risk Management, Compliance, Internal Audit). These must be inspected at intervals by an independent (internal or external) body to ensure that they are appropriate and adequate (Rz 11). The principles, processes and structures to ensure adherence to relevant statutory, regulatory and internal provisions must be defined via the Compliance function (Rz 12). It is also a requirement to define the principles, processes and structures to identify and deal with conflicts of interest and abuses (Rz 13) and those relating to the conduct expected of employees (code of conduct) (Rz 14). A final aspect requiring attention is that the insurance company must set up processes to guarantee that its Board always have the necessary professional experience, specialist knowledge and personal aptitude.

Kreienbühl | Management Consultancy can advise you on all the special features relating to corporate governance and help you to not only identify the relevant regulatory implications but also to implement them within the scope of your current organisation. In addition, we can assist you with the authorisation procedures required by supervisory law or by acting as an outsourcing partner for specific functions.

Your contact: Dr. Markus Kreienbühl



We will be pleased to answer your questions or provide additional information. We look forward to hearing from you.

Email: [markus.kreienbuehl@kreienbuehl-mc.com](mailto:markus.kreienbuehl@kreienbuehl-mc.com)

Telephone: +41 44 214 63 06