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To Insurance Institutions Subject to FINMA Supervision

Reference: FINMA Newsletter 17 (2010)

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Bern, 29 December 2010

FINMA Newsletter 17 (2010)

Governance, Risk Management and Internal Controls at Swiss Insurers

Information on the forthcoming Swiss Qualitative Assessment II

Ladies and Gentlemen

On February 1, 2010 FINMA published a report¹ summarizing FINMA's key observations from the submissions of Swiss insurers under the first Swiss Qualitative Assessment and informing that SQA II will be launched in 2011.

This communication informs on the nature, coverage, and timing of SQA II. It also provides further guidance for the Board of Directors (BOD), management, and control functions of insurers relating to the Corporate Governance (CG) / Risk Management (RM) / Internal Control System (ICS) areas.

1 Purpose and Nature of SQA II

FINMA considers CG, RM und ICS as indispensable components for the sound management of a company. These areas in turn constitute key elements of FINMA's approach to supervision.

In its SQA I report and in discussions with individual insurers FINMA recommended that the BOD of an insurer satisfy itself that the company is giving priority attention to the CG, RM, and ICS areas. It also

¹ <http://www.finma.ch/e/finma/publikationen/Documents/finma-mitteilung-05-2010-e.pdf>

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encouraged the BOD to review, together with management and the control functions, the progress their company has made since its SQA I submission and take further improvement actions as needed, taking into account any changes to the company's risk profile, market developments, and relevant lessons learned from the recent financial crisis.

SQA II is intended to build on those recommendations and provide a more robust way for FINMA to assess and engage companies in the CG, RM and ICS areas. As with any other first effort, FINMA identified certain limits and improvement needs when it carried out SQA I. The report on SQA I referenced above informed that SQA II was being redesigned to give increased focus on the effectiveness of a company's CG/RM/ICS strategies and systems, rather than primarily on their design.

With this goal in mind, SQA II has been designed to focus more on

- the work of the BOD and of each of the key control functions
- the specific strategies and systems the insurer pursues to ensure effectiveness in the CG, RM, ICS areas
- the intensity, quality, and impact of those systems and strategies
- individual areas of particular risk to the insurer specifically or to a class of insurers

The above approach allows for more tailoring and proportionality, permitting FINMA to adjust the SQA II content and application as a function of the company's size, risk profile, and areas of business.

2 Insurers Covered

SQA II is risk-based and as such will not cover all insurers. The selection of insurers for SQA II in 2011 is being determined in accordance with FINMA's internal risk rankings and other considerations, including any particular CG, RM, ICS or other concerns FINMA may have about an insurer. In addition, a random number of insurers will be selected.

The fact that an insurer is not selected initially in 2011 for SQA II does not mean that it may not be selected later. In addition the non-selection of an insurer for SQA II does not relieve the BOD or management from any of the obligations and expectations arising from the Swiss Federal Law on the supervision of insurers² or the supervision rules relating thereto on CG, RM, and ICS.³ FINMA may request from any insurer at any time information regarding their status on CG, RM and ICS matters. In addition, FINMA may request the BOD of an insurer to provide FINMA a certification in respect of the company's CG, RM, and ICS strategies and systems and in some cases may require independent external verification, whether in general or on specific issues.

² Insurers Supervisory Act [ISA]; SR 961.01.

³ The supervisory rules are contained in the "Circular on Corporate Governance, Risk Management, and Internal Control System" which came into effect on 1 January 2009 (RS 15/2006, now called FINMA-RS 08/32 of 20 November 2008).

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3 Timing and Further Steps

FINMA expects to contact the first group of insurers selected for SQA II in the course of the second quarter of 2011. The other insurers selected will be contacted later in the year. SQA II will be conducted in three stages. The first stage will involve the gathering of certain basic information. The second and third stages will focus on substantive areas. Insurers will be given adequate time in between stages to submit their responses to FINMA.

4 Recommendation

Whether an insurer is or is not selected for SQA II, FINMA continues to recommend to its BOD that it satisfy itself that the company is pursuing appropriate initiatives and dedicating appropriate resources in the CG/RM/ICS areas, including where (a) internal or external reviews have shown possible weaknesses or improvement potential and (b) where the company may have fallen behind market practices taken into account its size, risk profile and nature of business.

Yours sincerely

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