



New FINMA circular 2018/03 Outsourcing - Banks and Insurance companies

Focus: Insurance companies

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New challenges for insurance companies

On 5 December 2017, the new FINMA circular 2018/03 "Outsourcing Banks and Insurance Companies" was published. This circular enters into force on 1 April 2018 and for the first time also contains provisions applicable to insurance companies. For this, it bases itself on the existing requirements related to the business plan (specifically, form J). For already licensed insurance companies, the circular will apply from the date on which a business plan change is submitted or communicated to FINMA for approval. Up to this point in time, business activities may be continued as usual.

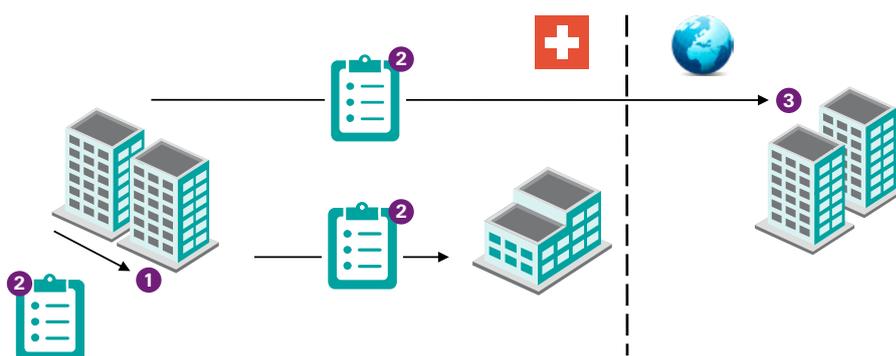
Nevertheless, for reasons of good corporate governance, we recommend beginning to apply the new requirements already today. The focus is therefore specifically on the preparation of internal directives for the approval of new outsourcing projects and in the case of already existing outsourcing, the inventorization of outsourced tasks, the definition of responsibilities, the risk control activities and the analysis of a possible in-sourcing. We can support you in the analysis of the impact that the new provisions will have on your business and will help you implement these efficiently and impeccably.

Quick health check: Is there need for action?

- Have you set up internal directives enabling decision-making in regard to outsourcing projects? If yes, do these meet the requirements of the circular?
- When selecting a service provider, have you also considered the concentration risk and the possible consequences of a transfer to a different provider, apart from professional qualifications, and the financial and human resources of the provider?
- Do you dispose of a complete and up-to-date list of all agreements with internal and external service providers and their sub-contractors, which serves as a base to determine whether your outsourcing meets the circular's requirements?
- Have you analyzed whether your existing or future outsourcing projects are deemed significant as per FINMA circular 18/03?
- Does the portfolio inventory (part of business plan form J) adequately reflect your current internal and external outsourcing relationships, including sub-contractors?
- Have your outsourcing relationships been documented adequately (contracts)? Do you have full and unhindered access to inspect and review the service provider at all times?
- Do you meet requirements regarding your outsourcing relationships abroad?
- Have you defined appropriate risk control measures? Do you monitor the service provider yourself or do you receive adequate confirmations from elsewhere? If you perform your own controls, have these been integrated into your ICS?
- Have you prepared a concept to re-integrate outsourced functions and do you dispose of a contingency plan that allows you to carry on the outsourced services in case of an emergency?
- Have you analyzed the circular's impact if you provide services to other group companies?

Regulated outsourcing relationships

The circular applies to insurance companies domiciled in Switzerland as well as branch offices of foreign insurance companies. The regulatory standards apply to group-internal and external outsourcing relationships. In the case of group-internal outsourcing, the insurer should check whether it can benefit from simplifications due to its company-specific situation.



1



Group-internal service providers have the same status as external service providers:

The circular's requirements in general also apply to group-internal outsourcing. This often means that you have more implementation efforts for existing internal outsourcing relationships (e.g. internal reporting). Moreover, group-internal outsourcing relationships require the same amount of monitoring and controlling as any external outsourcing, as well as the setup of clear, internal service level agreements. It is necessary to document and challenge the robustness of informal simplifications currently lived within the company's structure and if necessary, adjust them.

2



Inventory of outsourced functions (part of the business plan form J):

Insurers now have to keep a comprehensive inventory of (significant) internally or externally outsourced services, which has to be up-to-date. It should contain at least the outsourced services, the provider (including subcontractors), the recipients as well as the person responsible (owner) within the company. The inventory must state whether the service provider is abroad or not. Insignificant outsourced functions must also be documented adequately.

3



Outsourcing abroad is subject to certain conditions:

Outsourcing abroad is allowed only if it is guaranteed that the company, the audit firm and FINMA can assume their inspection and audit rights at all times and in an unhindered manner. Specifically with outsourcing abroad, the insurer must make sure that it could restructure or wind down the company in Switzerland and that the necessary information is available in Switzerland at all times.

Further focus topics



Risk control

Taking into consideration the FINMA's outsourcing requirements, outsourced functions must be integrated into the company's existing risk and control framework. In this regard, the company must be in a position to identify, monitor, quantify and manage the significant risks arising from the outsourcing abroad. The insurer continues to bear the same responsibility towards FINMA as if it were to provide this service itself. It must also provide a contingency plan, which allows the continuation of the outsourced services at any time.



Contract governance processes and contract obligation

The insurer must define the internal approval process for outsourcing projects as well as the competencies for the conclusion of related agreements. The insurer, its audit firm and FINMA must be able to fully review the outsourcer's compliance of regulatory provisions at all times and unhindered. The circular requires the signing of a written contract between the insurer and the service provider which meets FINMA requirements. In doing so, it is important to also adequately include subcontractors.

Possible activities which represent significant outsourcing as per the new FINMA circ. 2018/03 (non-exhaustive):

- Product development
- Distribution
- Risk underwriting
- Policy administration
- Claims handling
- Accounting
- Capital investment and management
- IT (information and data processing)
- Appointed Actuary
- Risk management
- Compliance
- Internal Audit

Extensive outsourcing expertise: how KPMG can support you

- Perform an impact analysis of the new FINMA circular 2018/03 on your insurance company.
- Determine company-specific definitions of significant functions, the preparation of internal directives, of responsibilities in regard to outsourcing as well as contract frameworks for future outsourcing projects.
- Define and inventorize all significant service agreements, taking into consideration all external and internal service providers and their sub-contractors.
- For your existing outsourcing relationships: Assess a possible in-sourcing in an orderly fashion, the adequacy of the interfaces defined and relevant responsibilities; making sure that they are included in the internal control framework and advice when preparing or adjusting the contingency plan for emergencies.
- Prepare an action plan in consideration of the transitional provisions. Perform an impact analysis on the currently authorized business plan (Form J).
- Perform a health check of internal and external outsourcing agreements to determine whether they meet the new requirements. Possibly, prepare an ex-post documentation of your existing outsourcing relationships.
- Elaborate a suitable basis for a risk assessment pertaining to outsourcing agreements using KPMG's bespoke "Risk Analyses Outsourcing Questionnaire".
- If you are the service provider: Prepare Service Organization Controls (SOC) reports to assure that you are complying with regulations and that you dispose of effective internal controls.

Our added value for you:

Ready-to-go tools for your agreements.

Access to industry knowledge.

Efficient project set-up enabled by our industry expertise and experience in the area of outsourcing for financial service providers.

A highly motivated team: Our innovative solutions will bring new impulses and will help make your project a success.

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