

# What counts is assurance as a whole

By Marcel Stalder



## Risk convergence – corporate governance elements must be linked and incorporated in an integrated concept

Marcel Stalder believes there is a need among insurance clients for targeted „assurance“ solutions. The wide range of internal controlling, risk management, compliance and control functions must be integrated and harmonized and should place no unnecessary burden on line management functions.

**The insurance market is exceptionally diversified. What are the main overall trends you have identified?**

Firstly, regulatory requirements are on the increase. Over the next few years I expect this trend to continue in Switzerland, where convergence of insurance and banking supervision under the Swiss Federal Financial Market Supervisory Authority (FINMA) is imminent.

Secondly, issues related to accounting and reporting are becoming

increasingly important. Projects such as the new solvency provisions set out in the Swiss Solvency Test (SST) or Solvency II, and international accounting standards are posing key challenges for the insurance industry, driving forward the convergence of accounting, actuarial and risk management functions.

Thirdly, the market is seeing a trend towards consolidation and concentration. This, too, is unlikely to change in the short term – growing complexity, greater regulation and the related pressure on costs are increasingly imposing a strain on smaller insurance companies.

**How are insurance companies responding to regulatory change and the creation of FINMA?**

They are monitoring developments very closely: The majority of market players take a positive

view of the move towards greater professionalism in supervision. The benefits of regulating certain issues are acknowledged. However, for the insurance industry it is important to ensure that the regulations pertaining to banks are not simply applied indiscriminately to the insurance sector.

**How do you view this tug-of-war between regulation and corporate responsibility from an auditing and business advisory standpoint?**

As I said, a certain degree of regulation is important to protect insured persons. But the risk of impeding competition and innovation is also always inherent in regulation. That's why, quite rightly, the industry is monitoring the situation carefully to determine the volume of energy and financial resources already absorbed by regulation.

Personally, I am a little uncom-

portable with the way legislators and regulators in Europe (including Switzerland) are shifting away from our proven culture of principle-based procedures and moving increasingly towards Anglo-Saxon rule-based frameworks – in the process sacrificing the benefits of regulation for the sake of standardization.

**You mentioned changes in accounting as a second trend. What exactly is happening?**

Within the overall context of international accounting standards, the introduction of IFRS 4 permitted atypically extensive scope in the initial phase, particularly with regard to valuation. The standards body will shortly be publishing a discussion

paper, with input by representatives of the relevant interest groups, on the future handling of insurance contracts. Among other things, this proposes a stronger weighting of the economic facts, based on prospective valuation procedures. This will require even closer collaboration between those responsible for accounting and actuaries, in order to estimate the extent of the underlying influencing factors.

**How does this challenging project fit in with increasing regulation or the Solvency II initiative?**

Firstly, the more modern approaches applied in the future will result in the convergence of actuarial activities with risk management

and – if only partially – accounting. In future, comprehensive financial management will be the name of the game.

On the other hand it has become clear that increased regulation and the new requirements imposed on companies are resulting in the creation of a large number of often poorly-coordinated internal „assurance“ disciplines. For instance, risk management performs assessments together with line management, the compliance function demands both information and evaluations on compliance risk from the front office, and internal control in turn carries out its activities in accordance with the Insurance Supervision Act. Added to this, controlling, qual-



ity management, the internal audit function and, of course, external auditing still continue to exist. All these functions and activities require line management to give input and submit reports – most of which are uncoordinated and redundant.

**Is coordination actually possible, given the disparate backgrounds?**

Absolutely! The trend is clearly in this direction – I call it risk convergence. What counts is assurance as a whole – no-one can benefit from a fragmented approach and uncoordinated reporting.

It is important for the various risk and assurance functions to be incorporated in an integrated concept. Financial reporting, compliance and operational risks must be applied along the value chain, where they can be managed in an integrated manner.

This provides three main advantages:

- Firstly, the focus is more on assurance for the company as a whole – governance costs can be minimized.
- Secondly, it takes the burden off line management. In future they will only need to process questions and evaluations once, and always from an integrated standpoint.
- Thirdly, this procedure enables concentrated reporting to the board and executive management. This is almost the most important aspect, since it improves management's overview in terms of risks, and sharpens the focus on key issues.

**As an advisor, do you support such simplified approaches?**

Yes, we are deliberately aiming for such approaches. That's why, in our

„Insurance Practice“, we employ a mix of advisors with a background in auditing, law or taxation and reputable insurance industry practitioners such as actuaries, risk managers and accounting specialists. We also make sure that we have competent local experts for all our projects here in Switzerland, so that there is no need to fly them in. What we need today are solutions that are internationally compatible but take account of local conditions and avoid unnecessary ✗

Marcel Stalder (Partner)  
Swiss Insurance Industry Leader  
Member of Ernst & Young Global  
Insurance Advisory Panel  
Phone: +41 58 286 34 01  
E-Mail: [marcel.stalder@ch.ey.com](mailto:marcel.stalder@ch.ey.com)



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