

# Directives

of the Federal Office of Private Insurance FOPI

**2/2007 – Directive on the authorization of audit companies as independent auditors and auditors in charge under specialized insurance legislation**

**of 1 January 2007, revised as of 1 September 2007**

**Legal basis:** Article 2 para. 1(b) ISA, article 4 para. 2(i) ISA, article 5 ISA  
Article 28 ISA, articles 112 to 116 SO  
Articles 70 and 78 ISA; articles 191, 203 and 204 SO  
Article 216 para. 12 SO and article 216a SO

**Entry into force:** 1 September 2007



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Swiss Federal Department of Finance FDF  
**Federal Office of Private Insurance FOPI**

## 1 Background

Article 28, paragraph 1 ISA provides that insurance undertakings must mandate an audit company to audit the financial statements. According to article 70 ISA and article 78 ISA, article 28 ISA shall be applied mutatis mutandis to insurance groups (groups) and insurance conglomerates (conglomerates) that have been placed under Swiss insurance supervision exercised by the Federal Office of Private Insurance (FOPI). Only audit companies and auditors may be mandated to conduct audits that have received special authorization from FOPI as an independent auditor respectively auditors in charge.

Due to the new provisions governing audit requirements and the entry into force of the Federal Law on the Recognition and Supervision of Auditors of 16 December 2005 (Audit Supervision Act, ASA), the conditions and procedures for authorizing audit companies and auditors in charge by FOPI have changed.

Article 22 ASA requires the Federal Audit Supervision Authority (FASA) and the specialized supervisory authorities such as FOPI to coordinate their supervision activities. Within this modular system, FASA thus reviews the preconditions for basic authorization and – if these preconditions are met – issues a basic licence. Based on this basic licence as a State-supervised audit company, FOPI upon application carries out a review of the preconditions for authorization under the specialized insurance legislation and – if the preconditions pursuant to the specialized legislation are met – issues its authorization of audit companies and auditors in charge under specialized legislation.

Insurance undertakings domiciled abroad that are subject to supervision in Switzerland must also mandate an audit company for the branch in Switzerland. Where the term “insurance undertaking” is used below, this also includes such branches.

## 2 Purpose

The purpose of this Directive is to set out the preconditions and the procedure for authorization under specialized legislation of the audit company and the auditors in charge of insurance undertakings, groups, and conglomerates in more detail. Furthermore, the Directive lays down the principles for monitoring these preconditions for authorization under specialized legislation.

## 3 Scope

This Directive is addressed to the audit companies and auditors in charge that intend to work in insurance auditing and that require authorization under specialized legislation by FOPI.

It is also addressed to insurance undertakings, groups, and conglomerates that mandate audit companies as independent auditors. For health insurance schemes offering services under the Insurance Contract Act, FOPI Circular 11/2006 of 1 November 2006 applies.

## **4 Preconditions for authorizing the audit company as independent auditor and the auditors in charge under specialized legislation**

### **4.1 Authorization as independent auditor under specialized legislation**

#### **4.1.1 Request for authorization under specialized legislation**

According to article 112 SO, the audit company must submit a request for authorization under specialized legislation to FOPI in writing prior to beginning its activities as an independent auditor of an insurance undertaking, group, or conglomerate. The review of the preconditions for authorization under specialized legislation can only be conducted once a basic licence as a state-supervised audit company has been issued by FASA.

#### **4.1.2 Organization**

In addition to the organizational preconditions for the basic licence, specific organizational requirements must be met for the field of insurance.

The organization of the audit company must guarantee the continuous, expert, and risk-oriented execution of the audit mandates for insurance undertakings. The organization must be set out in the articles of association, the company contract, or rules and regulations (article 114, paragraph 1(a) SO).

The management and control structure of the audit company must guarantee compliance with the applicable audit standards and standards for internal quality control, continuing training, and independence in the field of insurance. As a whole, the members of the general management must have thorough knowledge of the insurance industry and the relevant areas of finance and accounting.

According to article 114, paragraph 1(c) SO, the audit company must have sufficient qualified staff to ensure an expert audit in the field of insurance.

### **4.2 Authorization as auditor in charge under specialized legislation (article 116 SO)**

The request for authorization as an auditor in charge of an insurance company under specialized legislation must be submitted in writing by the audit company prior to initiation of these activities with respect to an insurance undertaking, group, or conglomerate. The preconditions under specialized legislation for authorization with respect to education and professional experience in accordance with article 116(b) SO are described in more detail in Annex 2 of this Directive. All materials must be submitted that provide evidence of compliance with the requirements set out in article 116 SO.

The audit company is responsible for ensuring that an auditor in charge only assumes this function after adequate familiarization especially with the organization, processes, and audit approach of the audit company.

The auditor in charge must comply with the provisions on independence set out in article 728 of the Code of Obligations on Auditors. The Independence Directive of the Swiss Fiduciary Chamber (RLU-TK) is considered the standard for the independence of the auditor in charge. The audit company shall ensure that it is complied with.

## 5 Independence and incompatibility

- a) The audit company and companies linked with it must be independent of the audited insurance undertaking, groups, or conglomerates and the undertakings linked with them (article 28, paragraph 2(b) ISA; article 115, paragraph 1 SO). The provisions on the independence of State-supervised audit companies apply (article 728 of the Code of Obligations on Auditors and article 11 ASA). RLU-TK as amended serves as the standard for the independence of audit companies, along with the standards laid down by the Federal Audit Supervisory Authority.
- b) The following are considered mandates incompatible with a mandate as independent auditor or auditor in charge:
  - Supervisory and accounting mandates for the audited insurance undertaking or the group/conglomerate to which the insurance undertaking belongs (article 115, paragraph 2 SO);
  - Performance of the internal audit (article 27, paragraph 1, sentence 2 ISA) of the same insurance undertaking, group, or conglomerate;
  - The function of responsible actuary of the same insurance undertaking. The same applies to the group auditor of the group/conglomerate and the function of responsible actuary of an insurance undertaking in this group/conglomerate;
  - Other relationships or mandates are considered incompatible if they result in a conflict of interest. The audit company must compile other relationships and mandates that could lead to a conflict of interest. Precautionary measures must be taken that are likely to prevent conflicts of interest. Measures for protecting independence include in particular quality control systems, rotations of the auditors in charge, and disclosure of relationships and mandates to the supervisory authority.
- c) Linked companies are companies or persons that are controlled directly or indirectly by or that directly or indirectly control the audited insurance undertaking or group/conglomerate or the audit company.

## 6 Appointment and change

The insurance undertaking, group, or conglomerate must mandate an audit company authorized by FOPI as an independent auditor with the audits in accordance with article 29, paragraph 1 ISA and the compilation of an audit report in accordance with article 29, paragraph 2 ISA and articles 203 and 204 SO.

Prior to terminating the mandate of the independent auditor, the insurance undertaking must obtain approval by FOPI (article 5, paragraph 1 ISA in conjunction with article 4, paragraph 2(i) ISA, change to business plan). At the same time, it must inform FOPI of the reasons for the change. The group/conglomerate must notify FOPI of the change of the group auditor and, at the same time, provide reasons for the change (article 191 SO).

## **7 Monitoring of preconditions for authorization**

Authorized audit companies must update their authorization documents each year as of 30 June and submit them to FOPI by 30 September. A notice must be submitted annually to FOPI by 30 September if the submitted documentation continues to be valid without changes. It is not necessary to resubmit documentation that is still valid.

## **8 Entry into force**

The revised version of this Directive enters into force on 1 September 2007.

## **9 Transitional provisions**

The preconditions for authorization under specialized legislation set out in this Directive must be met by 1 January 2008.

Audit companies and auditors in charge already serving as the independent auditor or auditors in charge of an insurance undertaking, group, or conglomerate or wanting to serve as such beginning in the 2007 calendar year must submit their applications for authorization under special legislation to FOPI by 30 November 2007 at the latest.

Federal Office of Private Insurance

Dr. Monica Mächler  
Director

Annex 1: Checklist and minimum requirements for the request for authorization as an independent auditor

Annex 2: Checklist for auditors in charge of the audit company and minimum requirements for the request

## **Annex 1**

### **Checklist for the independent auditor and minimum requirements for the request**

The following list enumerates the information and records that are sufficient in the normal case. This does not preclude the applicant from providing additional information or FOPI from demanding additional information and records.

The requests must be submitted in an official language of Switzerland and must include at least the following information and records:

#### **1 General information and records**

- 1.1 Purpose of the request.
- 1.2 Confirmation of provisional or final authorization as State-supervised audit company by the Federal Audit Supervision Authority.
- 1.3 History and current activities of the audit company and any new or planned developments relating to the audit of insurance undertakings; other useful information, unless this information is included in other submitted materials.

#### **2 Information on the members of the general management**

- 2.1 Curriculum vitae of each member of the general management with the following minimum content: personal data, general and professional education and training, general professional experience, especially professional experience relating to insurance.

#### **3 Business plan for the business sector “Auditing of insurance undertakings, groups, or conglomerates”**

- 3.1 Evidence of existing audit mandates for insurance undertakings or groups/conglomerates subject to Swiss insurance supervision;

or

- 3.2 Evidence that the audit company will receive audit mandates for at least two insurance undertakings or groups/conglomerates subject to Swiss insurance supervision, including an implementation plan.

## **4 Other relevant information**

- 4.1 Compilation of the employees intended to be appointed as auditors in charge of insurance undertakings or groups/conglomerates, including the materials required under Annex 2.
- 4.2 Compilation of the other leading employees (level of manager and above) intended to be assigned to the audit of insurance undertakings or groups/conglomerates, including their professional experience and education (diplomas).
- 4.3 Evidence of a valid professional liability insurance contract, including the information under article 3 of the Insurance Contract Act.
- 4.4 Binding declaration that the audit company will not assume supervisory, accounting, or consulting mandates for the audited insurance undertaking or group/conglomerate or any other tasks that are incompatible with the audit mandate (article 115, paragraph 2 SO).
- 4.5 Compilation of the previous activities and services by the audit company in the insurance field (internal audit, consulting, actuarial, or IT services, etc.), including information on the mandate and scope.

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## Annex 2

### Checklist for auditors in charge of the independent auditor and minimum requirements for the request

The following list enumerates the information and records that are sufficient in the normal case. This does not preclude the applicant from providing additional information or FOPI from demanding additional information and records.

The requests must be submitted in an official language of Switzerland and must include at least the following information and records:

#### 1 Preconditions under specialized legislation for authorizing auditors in charge

1. Provisional or final authorization as an audit expert by the Federal Audit Supervision Authority.
2. Evidence of professional experience in the insurance business:
  - Supervised professional experience of 1,500 hours in auditing insurance companies (audits of life, non-life, reinsurance, or health insurance companies);or
  - 5 years of professional experience suitable for gaining adequate insight into the insurance industry.
3. For persons who have completed equivalent foreign training: Evidence of requisite knowledge of Swiss insurance supervision law

#### 2 Records to be submitted with the request for authorizing under specialized legislation as an auditor in charge

The request for authorization under specialized legislation as an auditor in charge of insurance companies, groups, or conglomerates must be submitted in writing by the audit company. The request must be accompanied by the following documents/materials:

- Proof of identity (e.g. passport copy) and, where applicable, copy of work permit;
- Confirmation by the employers that a valid employment contract exists;
- Evidence of prompt reachability and availability at the registered office of the insurance company, group, or conglomerate;
- Evidence of professional experience in the insurance sector, including the following information:

Supervised professional experience in auditing:

- a) Name or company name of the employer;
- b) Date of begin and end of activities;
- c) Statement of full-time or part-time employment (in %) and position (e.g. manager, assistant, etc.);
- d) Name of the insurance undertakings for which the auditor conducted auditing activities;

- e) Last and first name of the person under whose supervision the activities were performed.

Professional experience in the insurance sector:

- a) Name or company name of the employer;
  - b) Date of begin and end of activities;
  - c) Statement of full-time or part-time employment (in %) and function;
  - d) Areas in which the activities were performed.
- Where applicable, evidence of the requisite knowledge of Swiss supervision law governing private insurance, by means of:
    - 1. Confirmation of the course of study completed;
- or
- 2. Confirmation by an audit company of supervised professional experience in Switzerland of at least half a year.

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