



# Survey 2019

Insights into challenges and trends relating to “Three Lines of Defence” model at Swiss insurance companies

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# FOREWORD

**The 'Three Lines of Defence' model is an integral component of many management approaches in the insurance industry, which numerous companies have implemented as a fundamental principle that has proved its worth for years. From a regulatory point of view, in the explanatory report on its circular 2017 / 2 Corporate governance – insurers, the Swiss Financial Market Supervisory Authority (FINMA) explicitly points to the Three Lines of Defence model as an approach to defining roles, responsibilities and the incorporation of risk and control units in a holistic governance system (FINMA, 2016).**

However, in Switzerland there has been no investigation to date of the concrete application of the model, its implementation in the insurance industry and the experience gained as a result. This is the starting point for the present study. The following aspects were examined, in particular:

- Benefits of the model
- Prerequisites and implementation status
- Task spectrum and scope of control functions
- Challenges of the implementation
- Current trends

The following study breaks down the results, both according to supervisory category and according to the segments life / non-life insurers, reinsurers and health insurers. The results of the study provide valuable insights into the operational implementation of the Three Lines of Defence model and its incorporation and application in insurance companies.

For the study, 12 experts were questioned in personal interviews, and 35 insurance companies asked about the benefits of the Three Lines of Defence model, its implementation and their experiences to date by means of standardized, online questionnaires. We would like to thank all those who took part for their co-operation, and are convinced that the following remarks and comparisons provide insights for further refining the Three Lines of Defence model.

We hope that you enjoy reading and gain interesting insights as a result.

The authors

# MANAGEMENT SUMMARY

**The information gathered from the expert interviews and the standardised survey show that there is a high level of consensus on the basic benefit of the model, and reveal a homogenous view of current trends. The model makes an important contribution to promoting the importance and holistic implementation of risk management objectives. While there is widespread consensus regarding the rough outline of the three lines, when the results are broken down in terms of business segment and supervisory category, they reveal essential differences in their assessment of the challenges and in the operational implementation.**

The greatest **challenges** are considered to lie in the consistent understanding of materiality and risk, differing assessment methods or principles and duplications and redundancies. The use of different (IT) systems is very challenging for life and non-life insurers. By contrast, reinsurers are more concerned with creating clarity with regard to the responsibility for non-financial risks. As in the literature on the subject, the most important prerequisite for successful implementation of the models is considered to be the 'tone at the top', followed by a consistent understanding of materiality and risk, consistent assessment criteria and the 'tone at the middle'.

As expected, the risk management function assumes the large part of the risk and control activities. The greatest number of overlaps occur between risk management and compliance. Comparison of the business segments and supervisory categories reveals considerable differences in the **task spectrum** of risk management, compliance, internal audit and external service providers. The comparatively high task spectrum of the compliance function is particularly striking in the case of large companies. The differentiation according to business segment makes it clear that, at health insurance companies, some individual tasks are discharged exclusively by risk management, while internal audit deals with a wider task spectrum by comparison. Few control activities are outsourced to external providers, if at all, mainly by small and medium-sized reinsurers. With regard to **resources**, it emerged that their distribution to the individual functions differs, above all in the area of compliance. Generally speaking, large companies employ more staff resources than smaller insurance enterprises.

The high level of consensus on several **trends** shows that Swiss insurers are concerned about the operational implementation of the model. Respondents attach a great importance to reducing complexity and focusing more intensely on materiality. There is a lack of certainty about the definition and implementation of independence. Better integration of reporting and control activities is predominantly an issue for larger reinsurers, life insurers and non-life insurers.

The results lead one to expect that the task spectrum and organisational integration of control functions will continue to undergo transformation. Four **areas of activity** can be derived. Insurance providers should define the roles, competencies and responsibilities of the control functions clearly and consciously, and regularly scrutinise the maintenance of independence and, at the same time, the effectiveness of the co-operation. It is necessary to safeguard the simplicity and comprehensibility of the model as its greatest benefit here, and the role of risk owners as the most important line of defence. A cross-sectoral discussion and definition of the essential risks and methods used suggests itself as a starting point for the deliberations. The guiding principle is the superordinate aim of a risk-oriented company management system that contributes to the success of the company in a dynamic market environment proactively and sustainably, and that does not limit itself to the role of reactive control.





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# BACKGROUND

Lessons from the financial crisis and growing demands on company management have increasingly placed qualitative and organisational aspects of risk management at financial institutions under the spotlight. Moreover, establishing an adequate organisational structure and the control functions of risk management, compliance and internal auditing occupy a central position here. In order for a governance system to achieve the desired operational capability, financial institutions must ensure that the control functions constantly exchange information and work closely together (Zinnöcker, 2017). As a result of the paper published by the Institute of Internal Auditors (IIA, 2013), the Three Lines of Defence model has achieved widespread recognition and established itself internationally as a concept for organisational embedding of control functions and interaction between the various operational units.

## THE 'THREE LINES OF DEFENCE' MODEL

In this section, the general structure of the Three Lines of Defence model at insurance companies will be briefly outlined. The model describes the roles assumed by the control functions of risk management, compliance and internal audit in a governance system. In the Solvency II directive, the term 'key functions' is used, which also includes the function of the responsible actuary. Here, the word 'function' does not refer to a person or department, but rather the capacity of the insurance provider to undertake the relevant tasks. It is important that the various tasks of the control functions can be fulfilled objectively and independently (FINMA Circular 2017 / 02). For this purpose, three Lines of Defence are modelled (Figure 1). The clear allocation of tasks is intended to guarantee that all risks are identified and managed effectively and efficiently. The governing body and senior management are the primary stakeholders in this (originally) internally oriented model.

Figure 1: The model of the three lines of defence (own presentation based on IIA, 2013)



<sup>1</sup> An updated IIA publication is expected in 2020.



The first line therefore has a very important dual role: assuming risks on the one hand, and at the same time assessing and monitoring them on an ongoing basis.

The responsible actuary supports senior management with assessments of technical aspects; like the senior management as a whole, therefore, they are situated outside the three lines of defence. The responsible actuary creates an annual report aimed at senior management which, besides their assessment, also incorporates measures for rectifying any inadequacies in the topics they cover.

The risk management and compliance functions form the second line of defence. This is responsible for establishing the risk management framework and processes, and the control system. It co-ordinates the regular, ad hoc risk reporting to management and, often, directly to the governing body. It supervises the organisation and functional capacity of the first line of defence, and monitors compliance with laws, directives and rules.

The third line of defence consists of the internal audit, which assesses the effectiveness and efficiency of the control measures and risk management process, and the interplay between the lines of defence. As an independent entity, it reports directly to the governing body.

## CRITICISMS OF THE MODE

While there is widespread consensus regarding the general outline of the three lines model, there are essential differences in the way it is practically implemented (Davies and Zhivitskaya, 2018). The areas that are currently the topic of discussion and criticism in the financial sector, both in academic circles and in practice, include the following:

- The model is too restrictive and limited; it tends to encourage **reactive** 'defence activities' rather than a proactive approach (cf. The Institute of Internal Auditors, 2019).

- The structures defined are too **rigid** and harbour the risk of creating silos (cf. IIA, 2019). The model pays too little attention to the fact that different risks, especially non-financial risks, demand different approaches (cf. Decaux and Sarens, 2015).
- The model conveys a **false sense of security**, because so many functions are responsible for risk management that, in the final analysis, nobody really feels responsible (cf. Davies and Zhivitskaya, 2018).
- More emphasis needs to be placed on the fact that the **first line of defence** assumes **the most important** role in implementation of risk appetite (Davies and Zhivitskaya, 2018).
- Further, there is need for clarification of the **conflict of interest in the first line**, which has to implement both return and risk objectives at the same time (Arndorfer and Minto, 2015).
- The **task spectrum of the second line**, which, on the one hand, is supposed to operate independently, but at the same time in close collaboration with the first line, is unclear or in need of definition (Arndorfer and Minto, 2015; COSO & IIA, 2015; Davies and Zhivitskaya, 2018; Sweeting, 2017)
- If the staff in the first line have better **experience, knowledge and internal status** than those in the second line, this can lead to a situation where the second line only deals with what the first line decides to reveal or discuss (Arndorfer and Minto, 2015; Davies and Zhivitskaya, 2018).
- External auditors and regulators must be added to the model as a **fourth line of defence** (Arndorfer & Minto, 2015), in order to emphasise their supplementary role.

Issues connected with this are also of concern to the Swiss insurance industry, where the Three Lines of Defence model has been established for many years.

However, there have been no investigations of implementation and the challenges which Swiss insurers face to date. The present study intends to fill this gap, and open up approaches for further research.

### SWISS SUPERVISORY PRACTICE

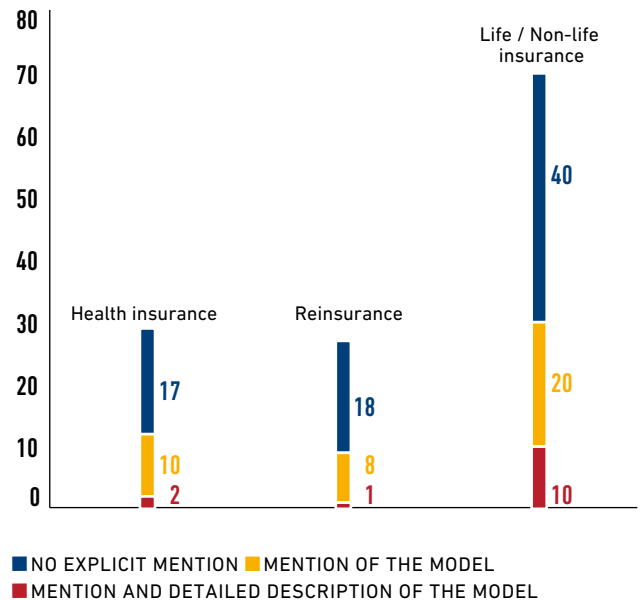
The appropriateness of the general corporate governance principles of FINMA circular 17/2 is investigated and assessed in the 'on-site controls' carried out by the supervisory body. The investigation pays particular attention to whether the control functions are independent, their tasks, competencies and responsibilities clearly defined, and whether the risk management and compliance processes are adequately defined and continuously implemented. Furthermore, the form of the second line's task spectrum regarding assessment of the appropriateness and effectiveness of the risk management and internal control systems is frequently discussed.

### THE MODEL IN REPORTING AT SWISS INSURERS

In order to gain an impression of the extent to which the Three Lines of Defence model has already established a foothold in the reporting practices of Swiss insurance firms, 126 reports on the financial situation for the business year 2018 were analysed. Among the reports analysed, 51 insurance companies made explicit reference to the Three Lines of Defence model.

The evaluation shows that a total of 40.5 % of the firms investigated make reference to the Three Lines of Defence model in their report on the financial situation. 10.3 % describe the implementation of the model, which in the above graphic has been assessed as a 'detailed description'. While reporting is not an indicator of the importance or implementation status of the model in the company, it is nevertheless a pointer towards the relevance ascribed to the communication of the Three Lines of Defence model as an approach to holistic implementation of the governance system. The distribution is largely independent of the insurance segment.

Figure 2: Mention of the three lines of defence model in the report on the financial situation (without branches, n=126).



<sup>2</sup> Of the total of 176 reports analysed, 50 originated from subsidiaries of foreign countries and were not considered for further analysis.



# DESIGN AND RESULTS OF THE STUDY

**The methodology of the present study is based on a combination of quantitative and qualitative surveying (Figure 3). The quantitative survey was carried out online between 22 August and 30 September 2019. At the same time, the authors conducted expert interviews with 12 representatives of the second and third lines of defence at various insurance companies (cf. 'Interview partners', p. 27). Statements made during these conversations have been presented as quotations in italics and integrated into the text. The statements by the interview partners have been anonymised and rendered as literally as possible. We would like to thank all of those who have contributed to this study by taking part in the survey and interviews.**

In all, 35 insurance companies took part in the online survey, most of them responsible for the second line of defence (Figure 6). The questionnaire was made available in German, French and English. The companies surveyed could be classified according to their business activities into life and non-life insurers, reinsurers and health insurers (Figure 4). The percentages shown always refer to the total number of responses given to the relevant question. Where the answers to several questions have been aggregated to form an indicator, the arithmetic mean has been used for this purpose. Deviations of the sum of responses from 100 % result from rounding up responses to whole numbers.

It was possible to allocate the study participants to FINMA supervisory categories 2 to 5 (Figure 5). In the context of this study, the category serves as an indicator of company size, where category 2 corresponds to large companies and category 5 to smaller ones. In this study categories 4 and 5 were combined and assessed together, since only a few category 5 companies took part.

Of the 35 company representatives surveyed, the majority could be allocated to the functions of qualitative risk management / internal control and finance / accounting. If the exercise of double functions is taken into account, the weighting shifts towards qualitative risk management / internal control and legal / compliance (Figure 6). Others predominantly represented management functions (CEO) that could not be allocated to any of the functions.

**'The model is useful because it is familiar, you can relate to it. It simplifies communication, both internally and externally.'**

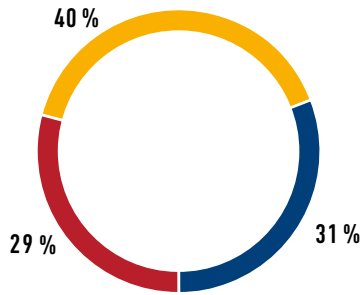
## BENEFITS OF THE MODEL

The companies surveyed consider the greatest benefit of the Three Lines of Defence model to be clarifying the importance of the risk and control functions for the company and in holistic implementation of risk management (Figure 7). In both cases, this was rated as important / very important by 83 % of the companies surveyed. The companies ascribed the least benefit to the organisation of reporting to different recipients. On enquiry, the companies indicated that the relevant reports were created in any case and that, for the most part, this was done by falling back on a common pool of information.

Figure 3: Methodical approach

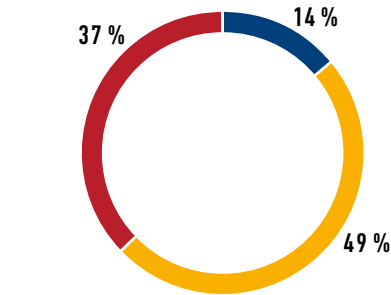


Figure 4: Which business does your company run? (n=35)



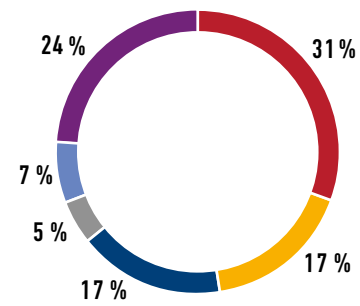
HEALTH INSURANCE  
REINSURANCE  
LIFE / NON-LIFE INSURANCE

Figure 5: Which FINMA supervisory category is your company assigned to? (n=35)



CATEGORY 2  
CATEGORY 3  
CATEGORIES 4 & 5

Figure 6: In which function do you work for your company? (multiple choice, n=35)



ACTUARIAL / QUANTITATIVE RISK MANAGEMENT  
OTHER  
QUALITATIVE RISK MANAGEMENT / INTERNAL CONTROL  
LEGAL / COMPLIANCE  
FINANCE / ACCOUNTING  
INTERNAL AUDIT

Figure 7: We see the greatest benefit of the three lines of defence model in ... (n=35)

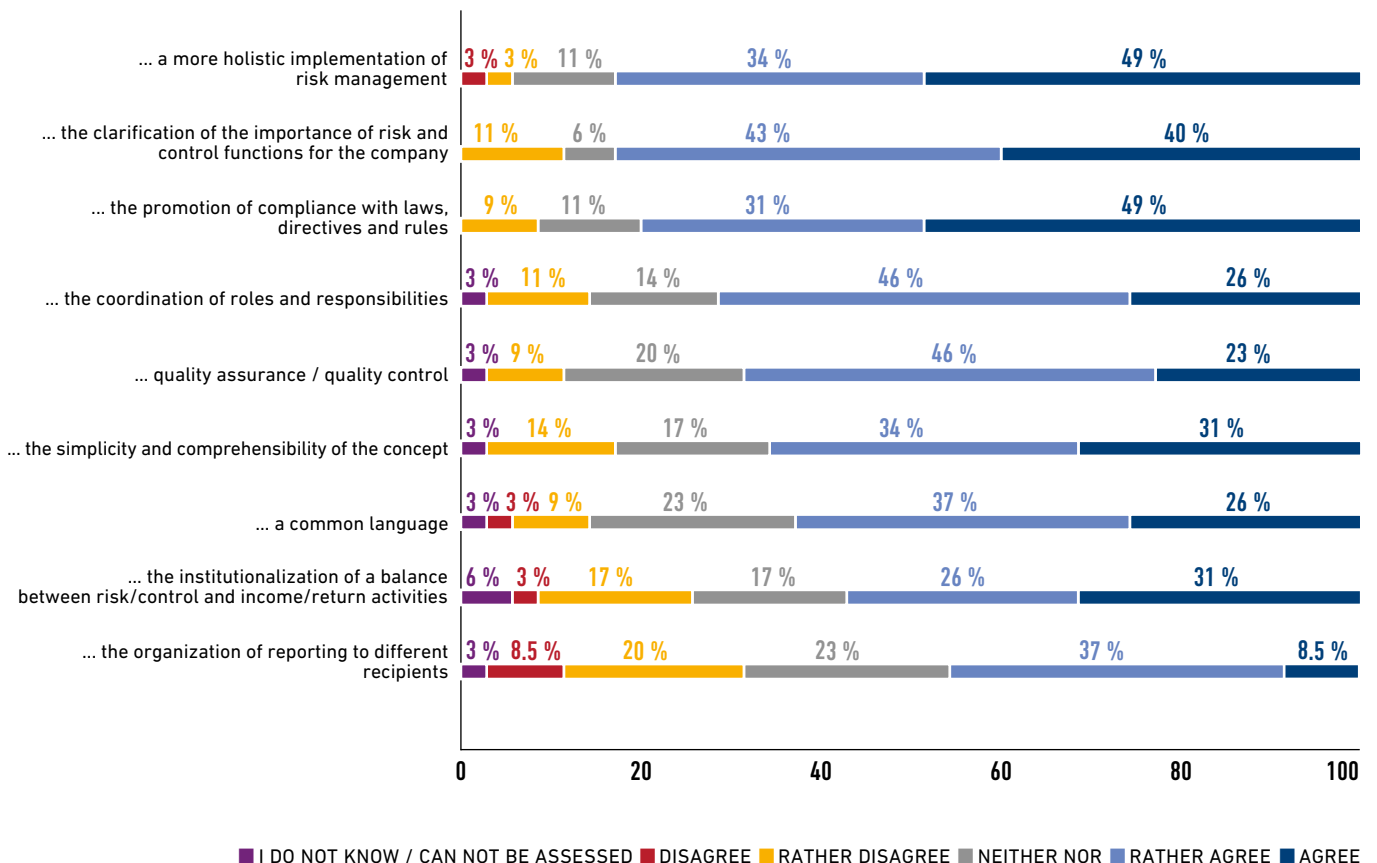
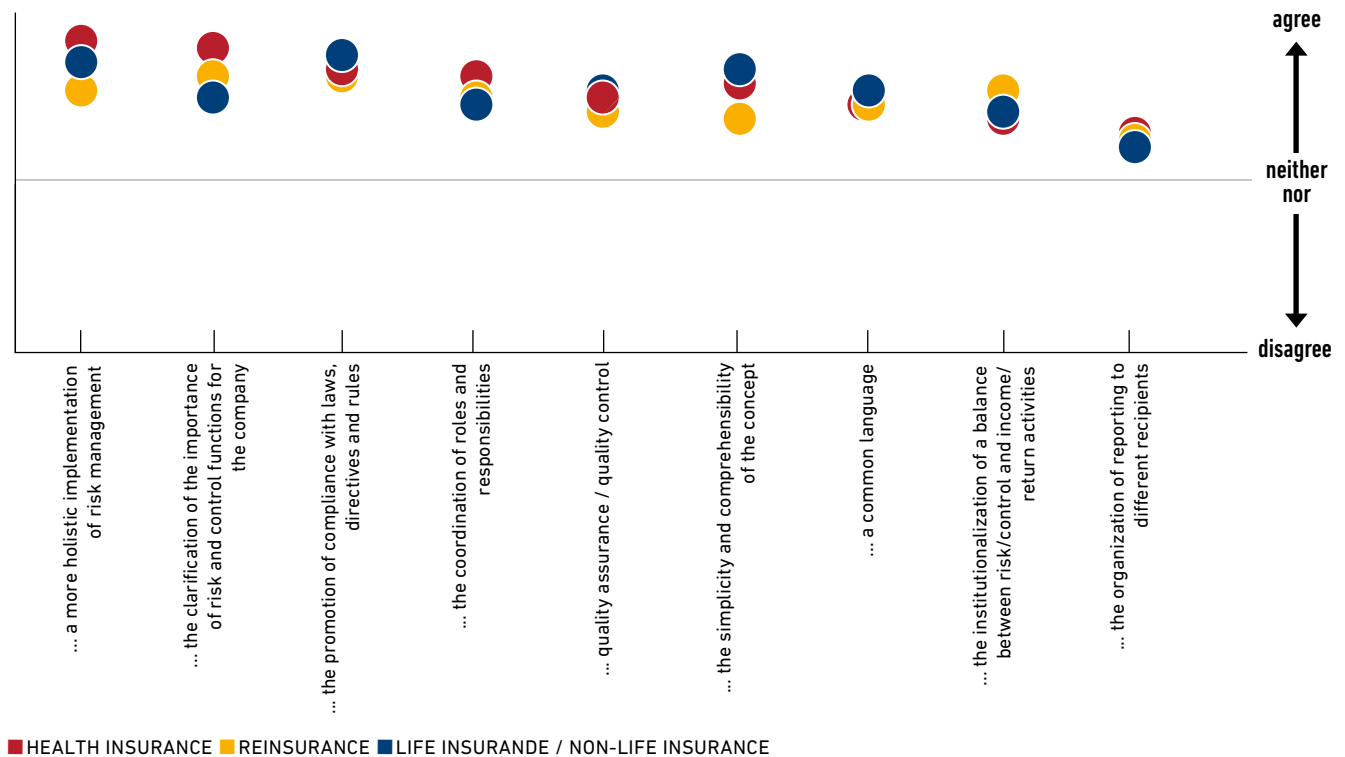


Figure 8: Greatest benefit of the three lines of defence model (by mean) by business segment is seen in ... (n=35)



Distribution according to business sectors yields only minor differences in assessment (Figure 8). Only in the case of the simplicity and comprehensibility of the concept do the reinsurers not accord the same benefit to the model as the health and life / non-life insurers.

Clearly differentiated assessments are revealed by analysis of the results according to company size (Figure 9). Smaller companies attribute less importance to the simplicity and comprehensibility of the concept, whereas large firms consider this to be of greater benefit.

### STATE OF IMPLEMENTATION AND PREREQUISITES

The Three Lines of Defence model has been well established in the companies for many years. This is confirmed by over 94 % of the companies surveyed (Figure 10). The interviews also confirm that the companies have implemented the model as part of organisation-wide risk management.

However, the model only provides the basic structure. There are therefore differences in concrete implementation, particularly in the form taken by the task spectrum in the second line, and in assessment of co-operation between the three lines. Answers revealed that co-operation between the three lines of defence is not yet regularly assessed in all companies.

**'We can assume that the model is mature when the risk perspective is explicitly demanded and is no longer seen as necessary evil.'**

**'Whether the Three Lines of Defence model is truly lived is also a question of culture.'**

Figure 9: Greatest benefit of the three lines of defence model (by mean) by supervising category is seen in ... (n=35)

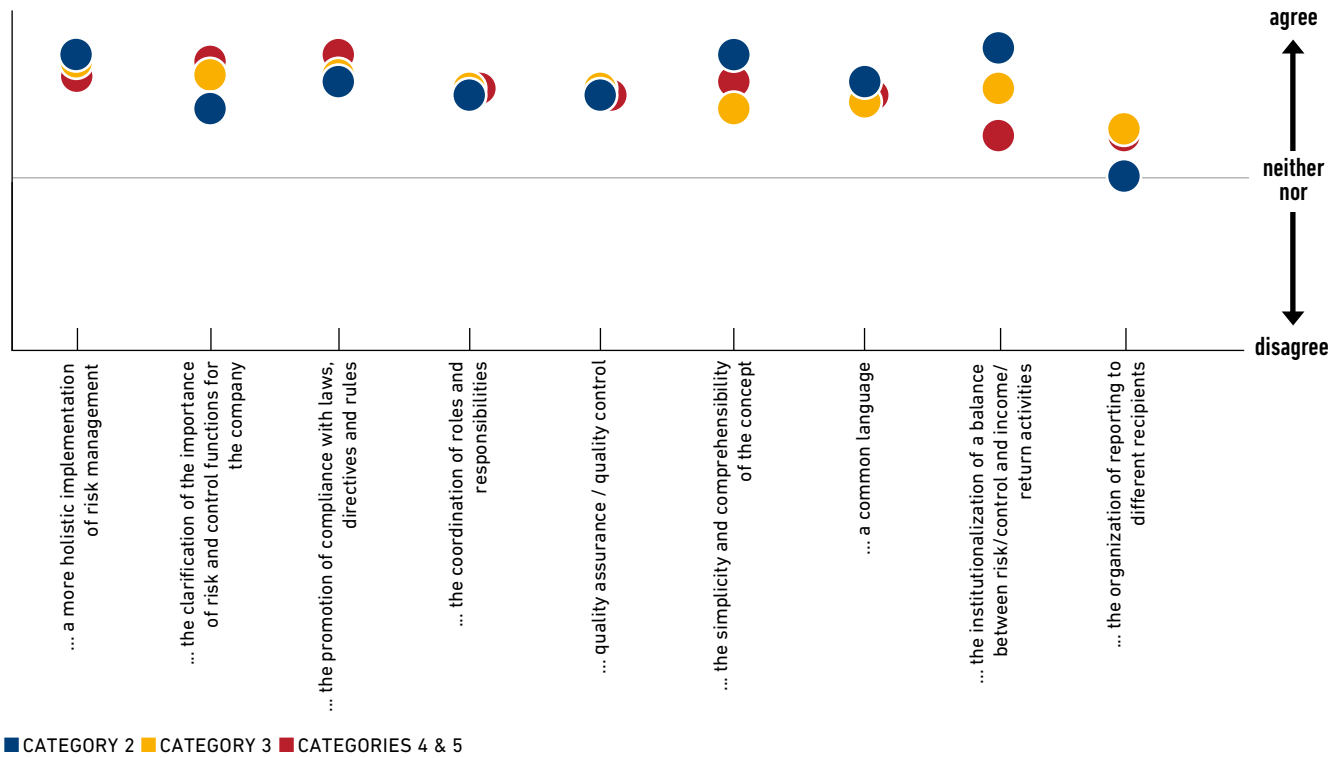


Figure 10: How do you judge the state of implementation of the model of the three lines of defence in your company? (n=35)

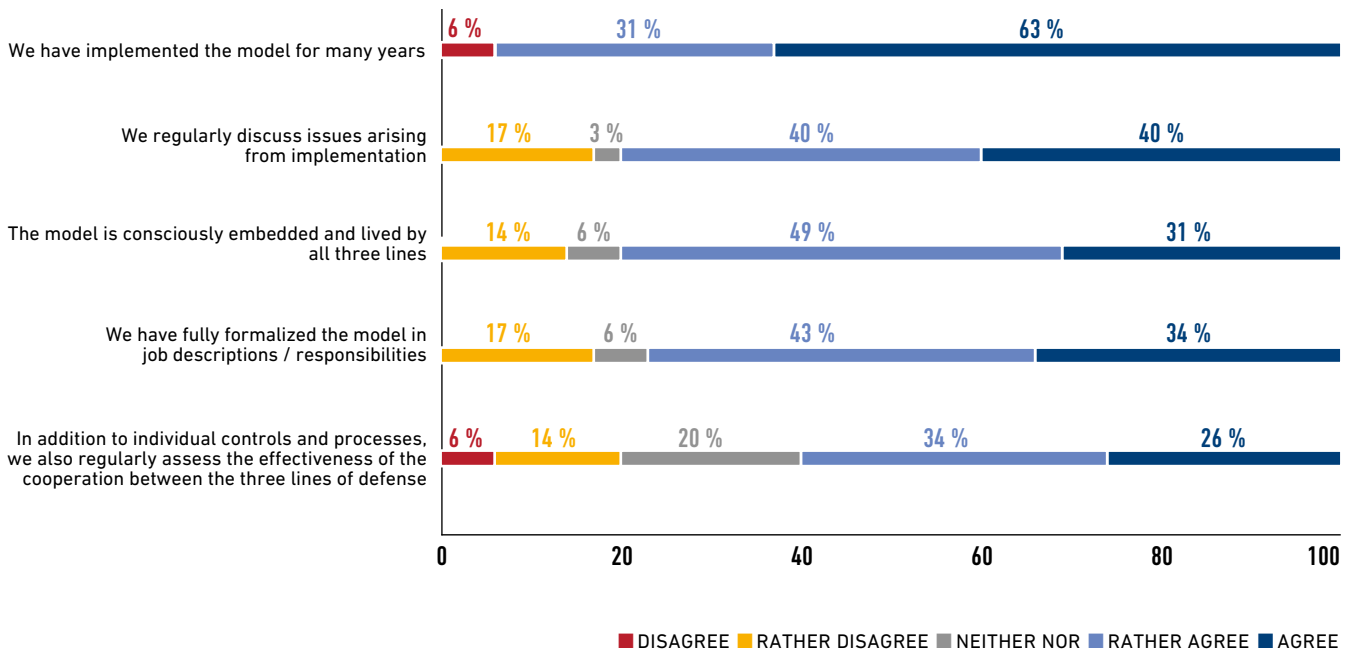
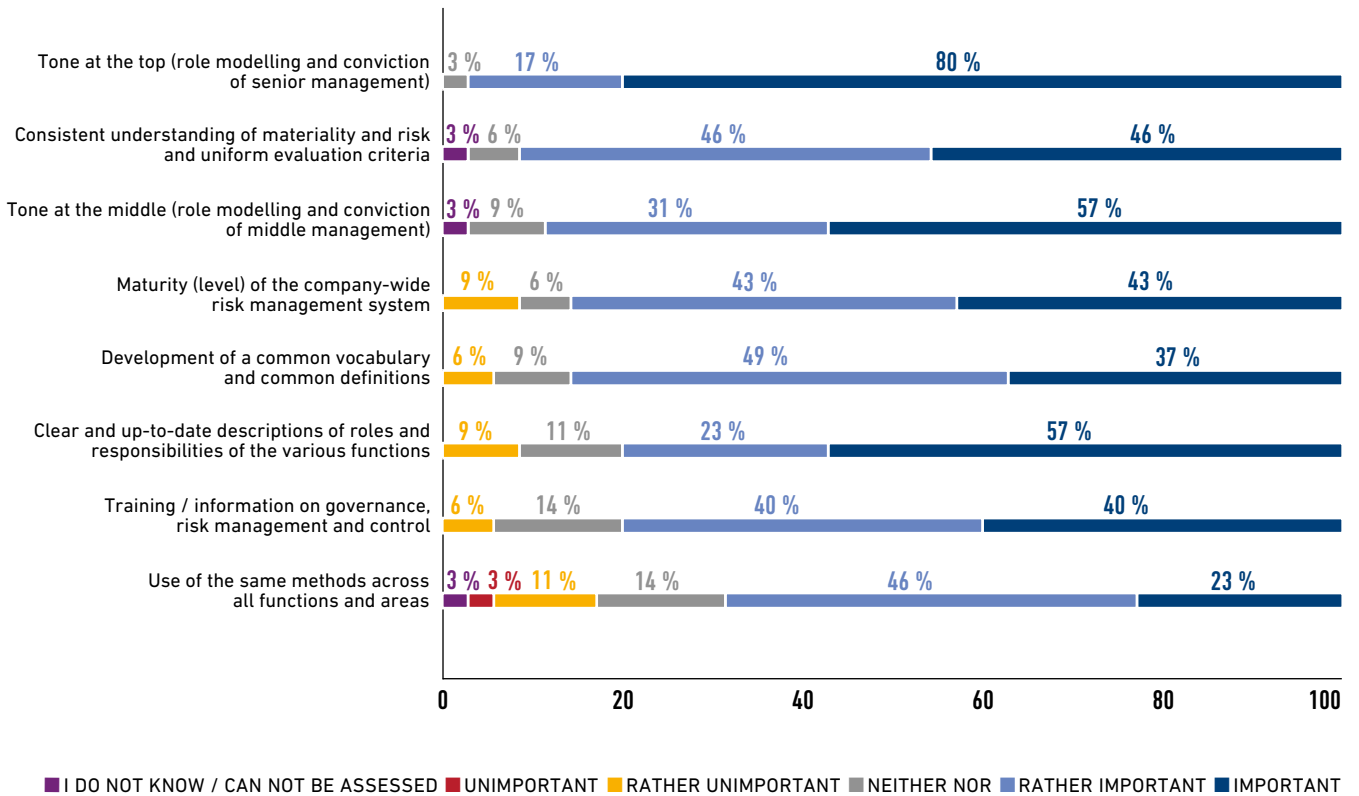


Figure 11: What are the most important prerequisites for successful implementation? (n=35)

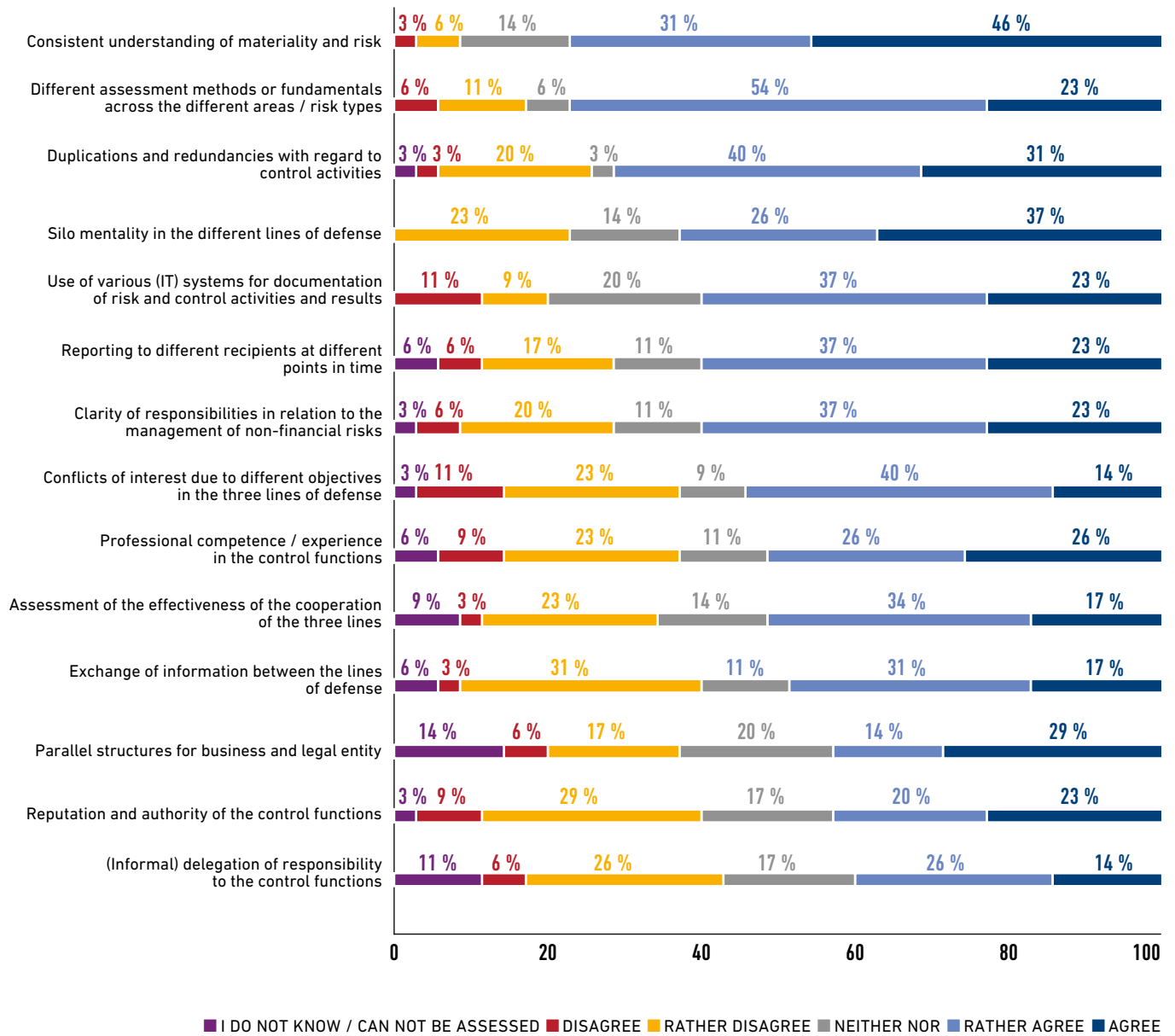


The companies surveyed consider the most important prerequisite for successful implementation of the model to be the 'tone at the top' – the role modelling and conviction of senior management (Figure 11). This was indicated by around 97 % of the companies. The other preconditions in the survey questions were also rated as important or very important by between 80 % to 91 % of respondents. The use of the same methods across all functions and sectors was judged to be the least important. Only around 69 % regarded this as important or very important. Reinsurers and life / non-life insurers assign a higher value to consistent understanding of materiality and risk and uniform assessment criteria than health insurers. By the same token, health insurers assign greater importance to clear and up-to-date descriptions of the duties and responsibilities of the different functions than life / non-life insurers. By contrast, life and non-life insurers accord higher importance to training courses and information events dealing with governance, risk management and control than health insurers and reinsurers.

The companies gave varied assessments of the challenges that arise in relation to implementation of the Three Lines of Defence model. Figure 12 provides an overview of all the companies surveyed. Over 77 % of the companies regard consistent understanding of materiality and risk and different assessment methods or fundamentals across different sectors / types of risk as the greatest challenge. Duplications, redundancies and how to reduce them are also a major issue. By contrast, reputation and authority of the control functions and (informal) delegation of responsibility to the control functions are perceived as the least significant challenges.



Figure 12: What are the main challenges related to the implementation of the three lines of defence model? (n=35)



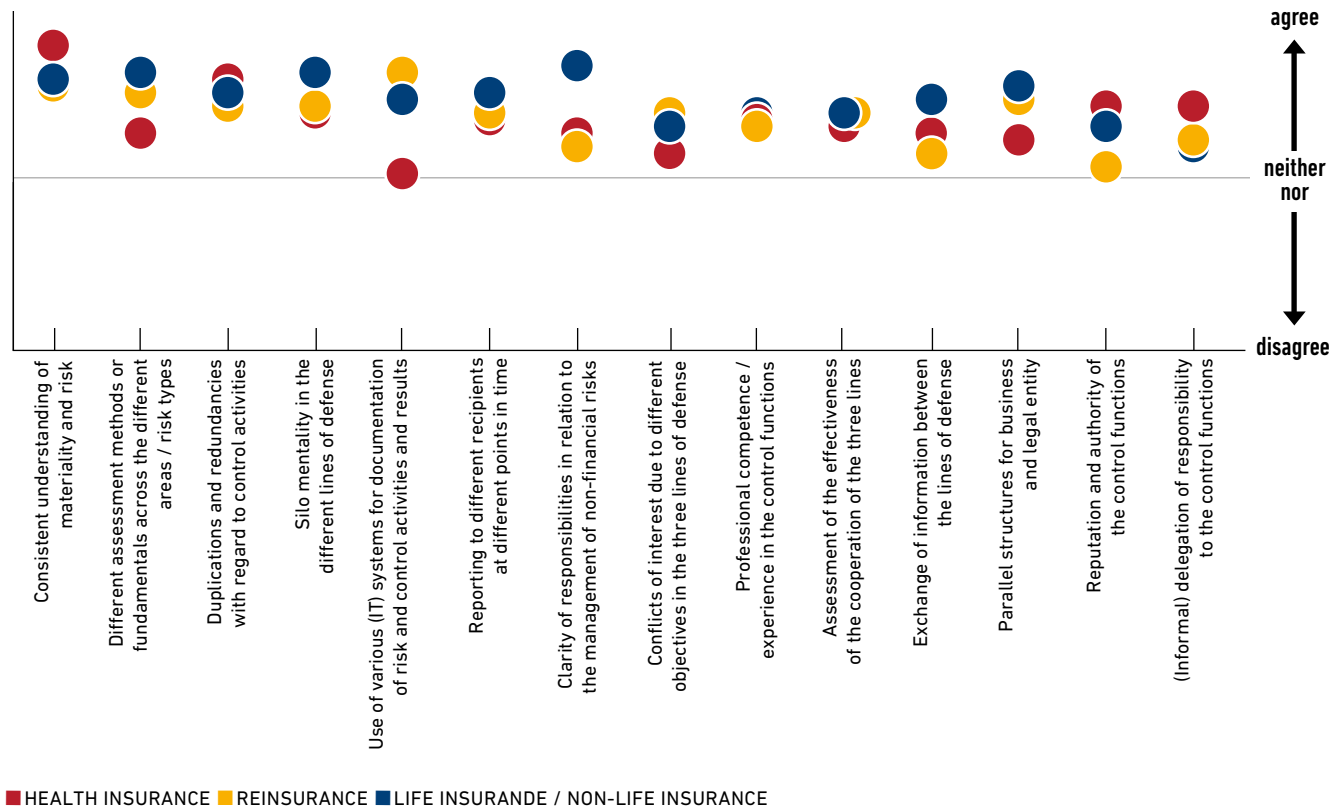
'We had many silo solutions and constructed separate tools for these. However, many measures have a cross-sector effect, which means that this produces a lot of redundancies and inconsistencies.'

'Agreement and co-ordination between the assurance functions are major challenges.'

'Because of the different IT systems you also have a different vocabulary.'

'In the past, the first line was overstretched as a result of non-coordinated assurance activities.'

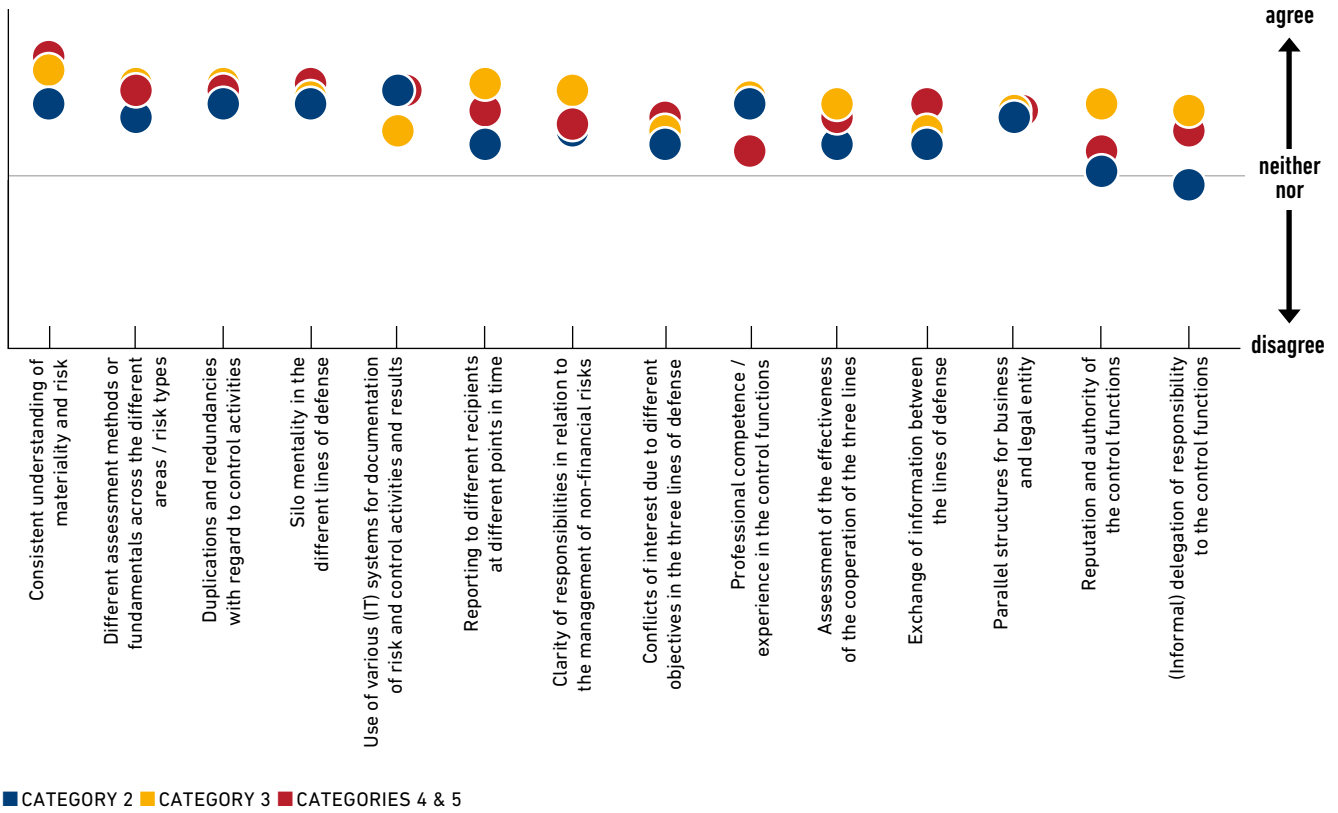
Figure 13: Main challenges related to the implementation of the three lines of defence mode by business segment (by mean, n=35)



However, consideration of the individual business segments reveals clear differences of assessment in some areas (Figure 13). In particular, the use of various (IT) systems for documentation of risk and control activities and results is rated differently by health insurers and life / non-life insurers. There is also divergence in the assessment of the clarity of responsibilities in relation to management of non-financial risks. This is judged by reinsurers to be the greatest challenge.

The analysis of challenges according to supervisory category shows that the greatest differences between insurance companies were in their assessments of the (informal) delegation of responsibility to the control functions (Figure 14). Category 2 insurers do not perceive any challenge here, whereas category 3 insurers most certainly do. Also striking are the differences in assessment of reporting to different recipients at different points in time. This is regarded as a challenge by category 3 insurers, whereas category 2 insurers do not perceive any particular challenge here. The judgments of small insurance firms lie in between, so that no conclusions can be drawn about company size. Clear differences in assessment are also revealed with regard to professional competence and experience of the control functions. Here the smaller insurance companies clearly perceive this as a less significant challenge than the larger companies do.

Figure 14: Main challenges related to the implementation of the three lines of defence mode by supervising category (by mean, n=35)



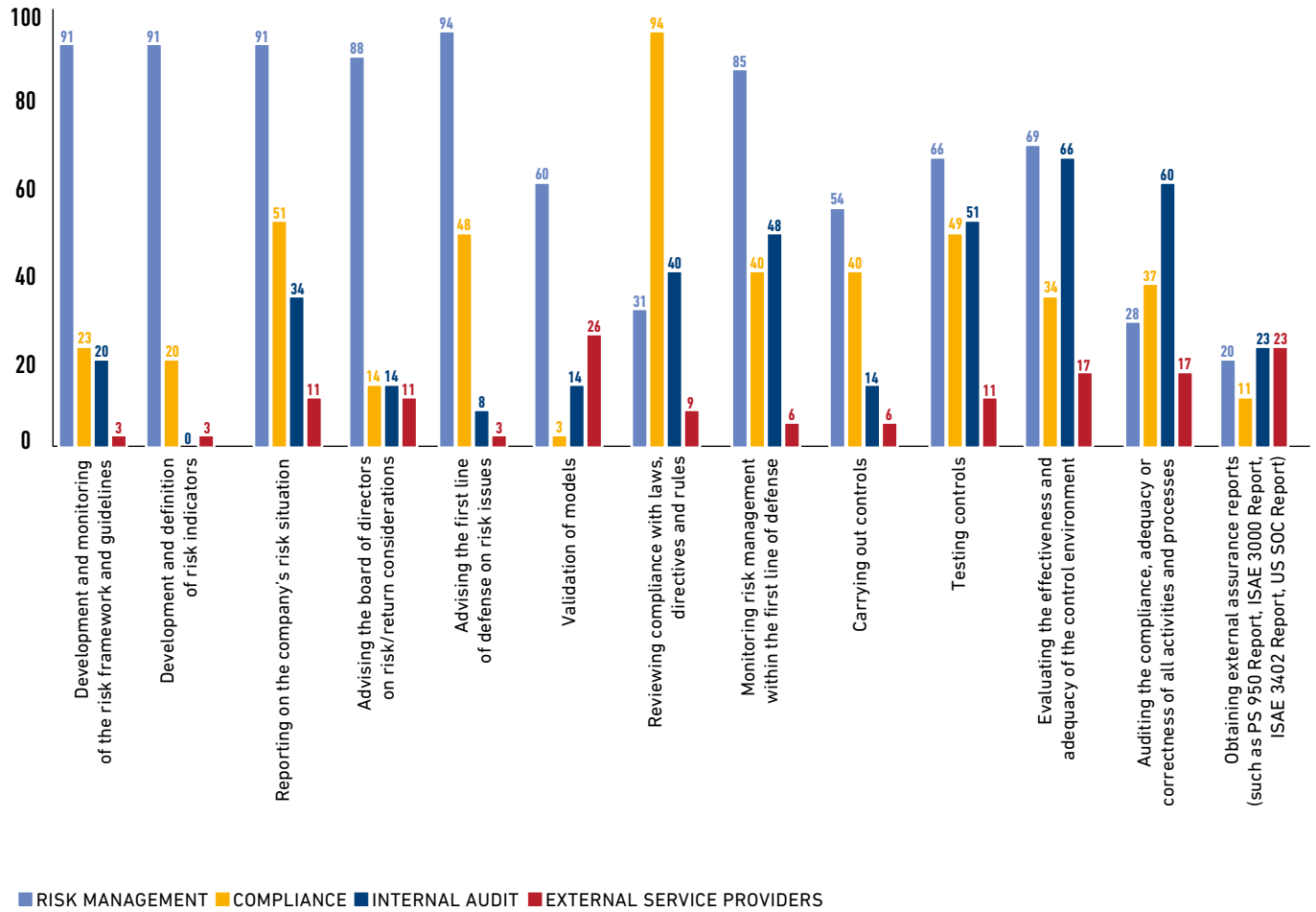
'Internal auditors must have very good analytical skills and bring an investigative mentality to their work. As well as this, these "super-auditors" must also be equipped with a high level of specialist competence.'

'If professional competence doesn't present a challenge, you're probably not ambitious enough.'

Figure 15: Range of activities performed by risk management, compliance, internal audit and external service providers (n=35)

**TOTAL**

All figures in percent



**TASK SPECTRUM OF CONTROL FUNCTIONS**

The majority of risk and control activities are handled by the risk management function (Figure 15). Even where risk management is not in charge of tasks, it is at least involved. As expected, auditing of compliance with laws, directives and rules comes under the responsibilities of the compliance function. The focus of internal auditing is on auditing the compliance of all activities and processes, assessing the effectiveness and appropriateness of the control environment and testing mechanisms, as well as monitoring the risk management of the second line. These tasks are mostly discharged in-house, and only rarely by external providers. Some respondents provided the supplementary information that the tasks of risk management also

included business community management, individual risk assessments and the creation of risk scenarios. Other tasks of the compliance function include sensitisation and training classes on relevant issues and responsibilities. No other tasks were mentioned by the respondents besides these. The task spectrum of the first line of defence was not included in the survey. It is striking that activities such as control auditing (testing) or reporting on the risk situation are undertaken by several control functions.

Overall, the tasks named most frequently were 'reporting on the risk situation', 'assessment of the effectiveness and appropriateness of the control environment' and 'monitoring of the risk management of the first line of defence'.

If all the tasks named are considered aggregate, then risk management assumes responsibility for the largest number of tasks in all business segments. The ranges of compliance and internal audit are different. In health insurance companies, internal auditing has a wider task spectrum than compliance. These undertake a wider task spectrum by comparison with reinsurers, life insurers and non-life insurers. In this field it is mostly reinsurers who use external providers, but these account for only a small proportion of the total task spectrum.

Consideration of the data according to supervisory category shows that risk management handles the largest task spectrum of all the categories. The comparatively high task spectrum of the compliance function is particularly striking in the case of large companies. Even in smaller companies, around a quarter of the task spectrums surveyed were handled (or co-handled) by compliance. By comparison, in category 3 insurance companies internal auditing has a wider task spectrum than the compliance function. External providers are most frequently employed by small and medium-sized reinsurance companies.

**'Ownership of the risks should continue to be located in the first line, both formally and culturally.'**

**'As in the formula 1 business, despite many rules and supervisors it is still the drivers who make the most important decisions.'**

Figure 16: Share of control functions in the task spectrum by business segments (n=35)

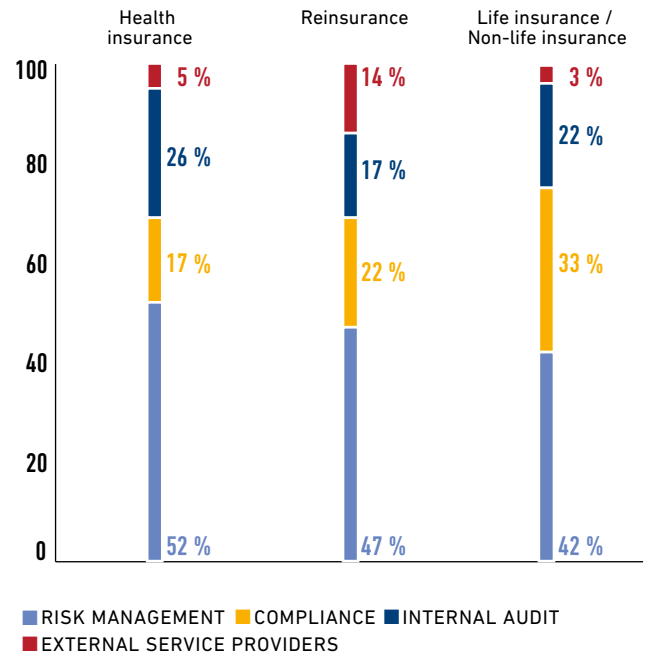


Figure 17: Share of control functions in the task spectrum by supervising category (n=35)

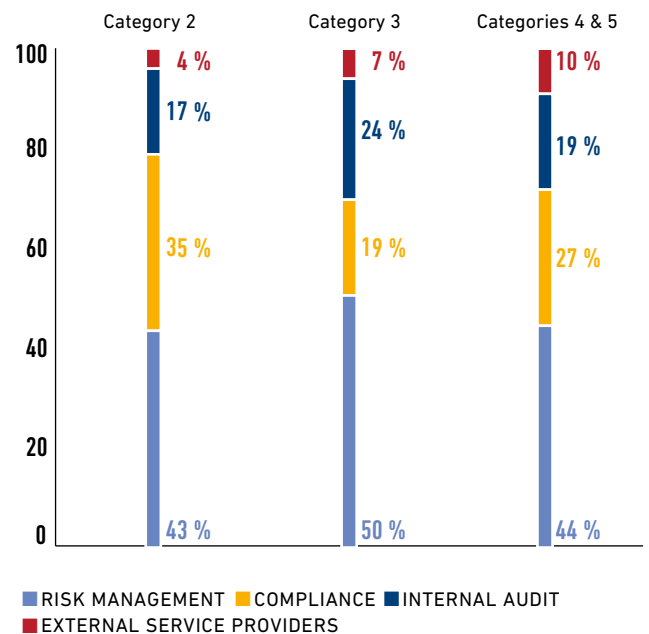
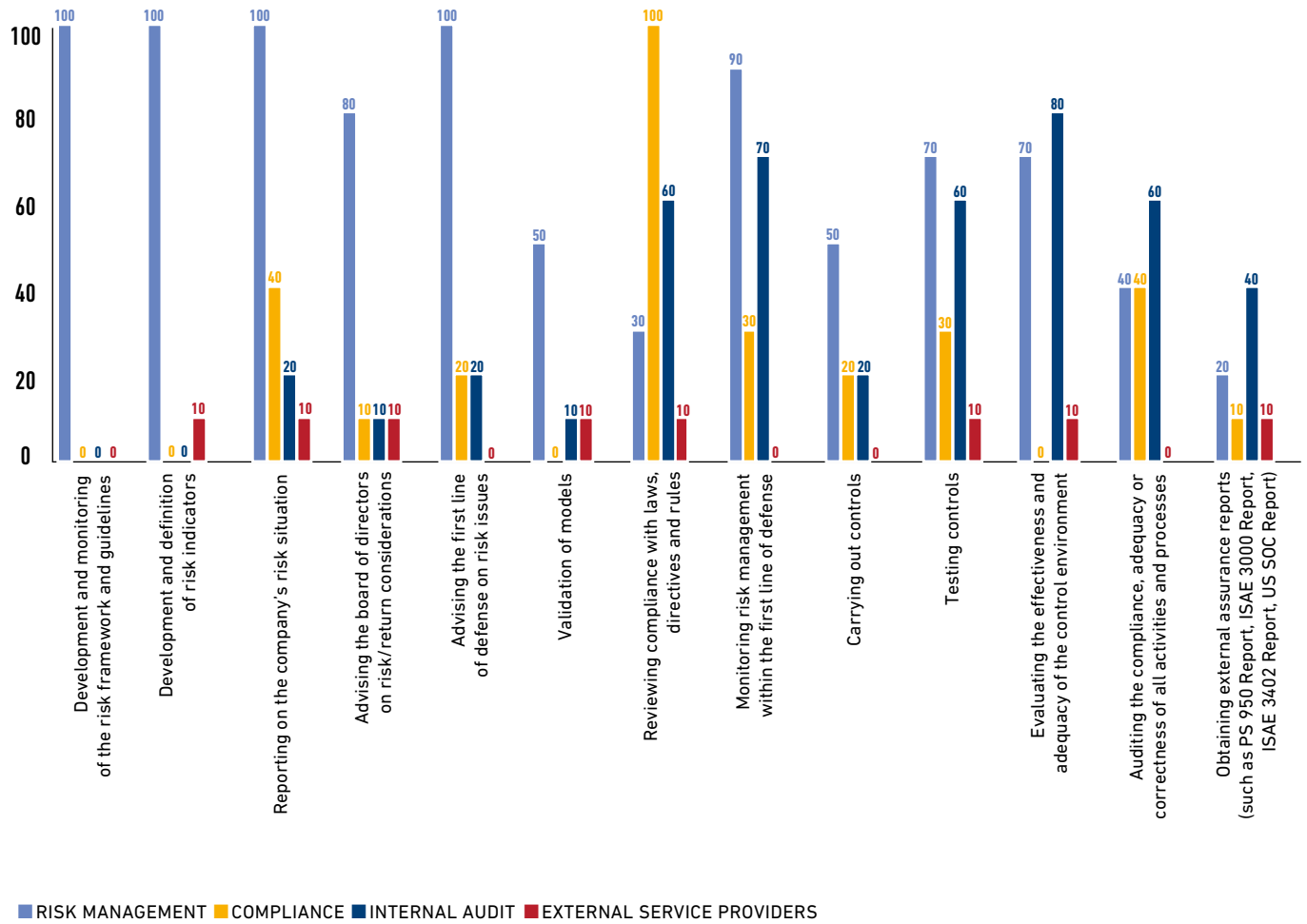


Figure 18: Range of activities performed by risk management, compliance, internal audit and external service providers at health insurers (n=10)

## HEALTH INSURERS

All figures in percent



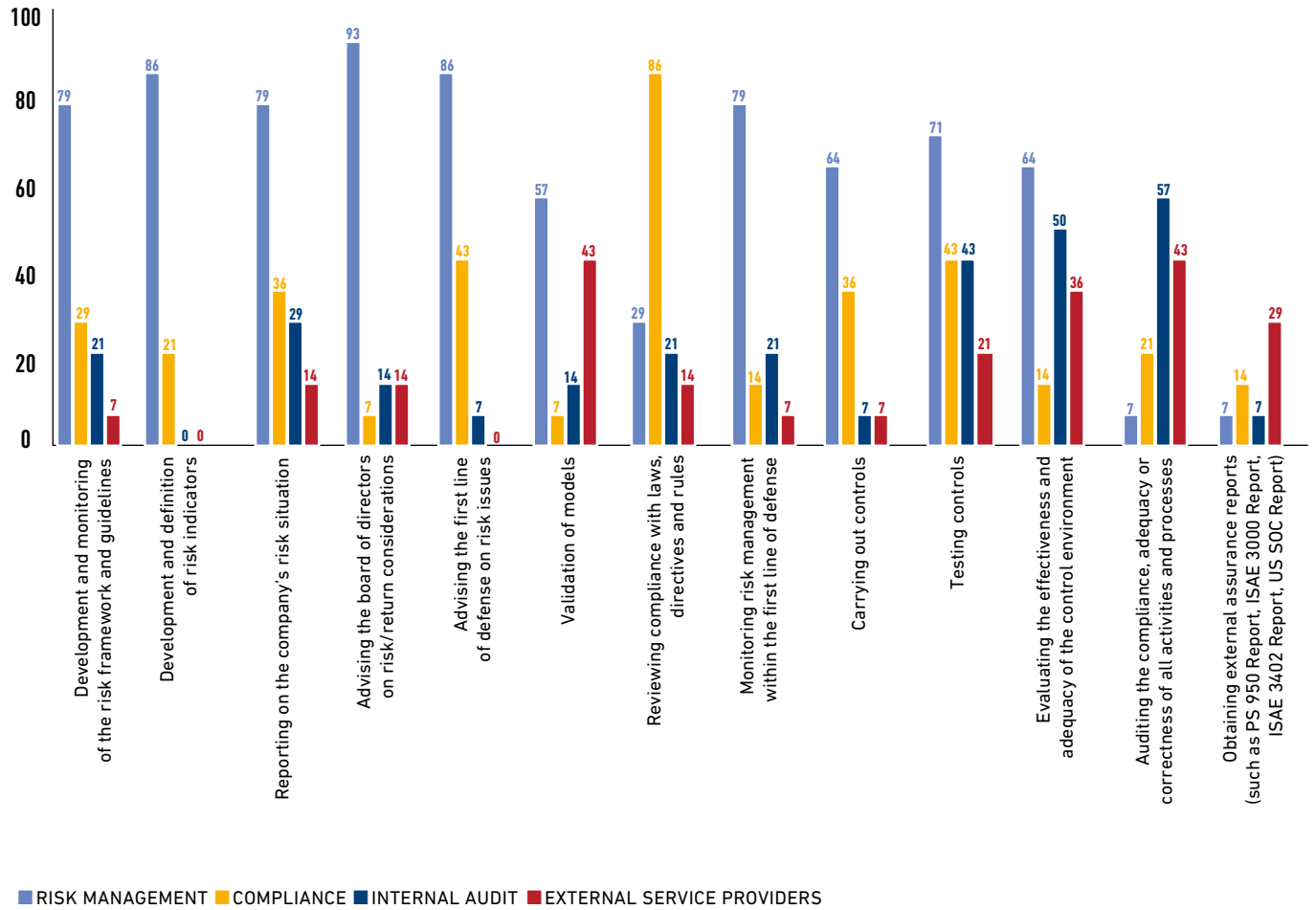
In the differentiation according to business segment, it is striking that individual tasks at health insurance companies are handled exclusively by risk management (Figure 18). These include, for example, development and monitoring of the risk framework and guidelines. Furthermore, feedback from the participants shows that internal auditing handles a wider task spectrum in health insurance companies by comparison with reinsurers, life insurers and non-life insurers. In the case of the reinsurance companies, one is struck by the comparatively high level of involvement of

external providers by comparison with the other enterprises (Figures 16 and 19). With a share of 40 % in each case, these are involved in the validation of models and auditing compliance of all activities and processes. Obtaining external assurance reports is also primarily the task of external providers. The task spectrum of risk management in some reinsurance companies is also less extensive by comparison to companies in other segments. One possible explanation of this is the increasing tendency to outsource tasks, particularly in smaller reinsurance firms.

Figure 19: Range of activities performed by risk management, compliance, internal audit and external service providers at reinsurers (n=14)

## REINSURERS

All figures in percent



'Of course advising and auditing are separated dependent on the audit objective.'

'Isolating and separating everything under the guise of 'independence' is neither efficient nor effective.'

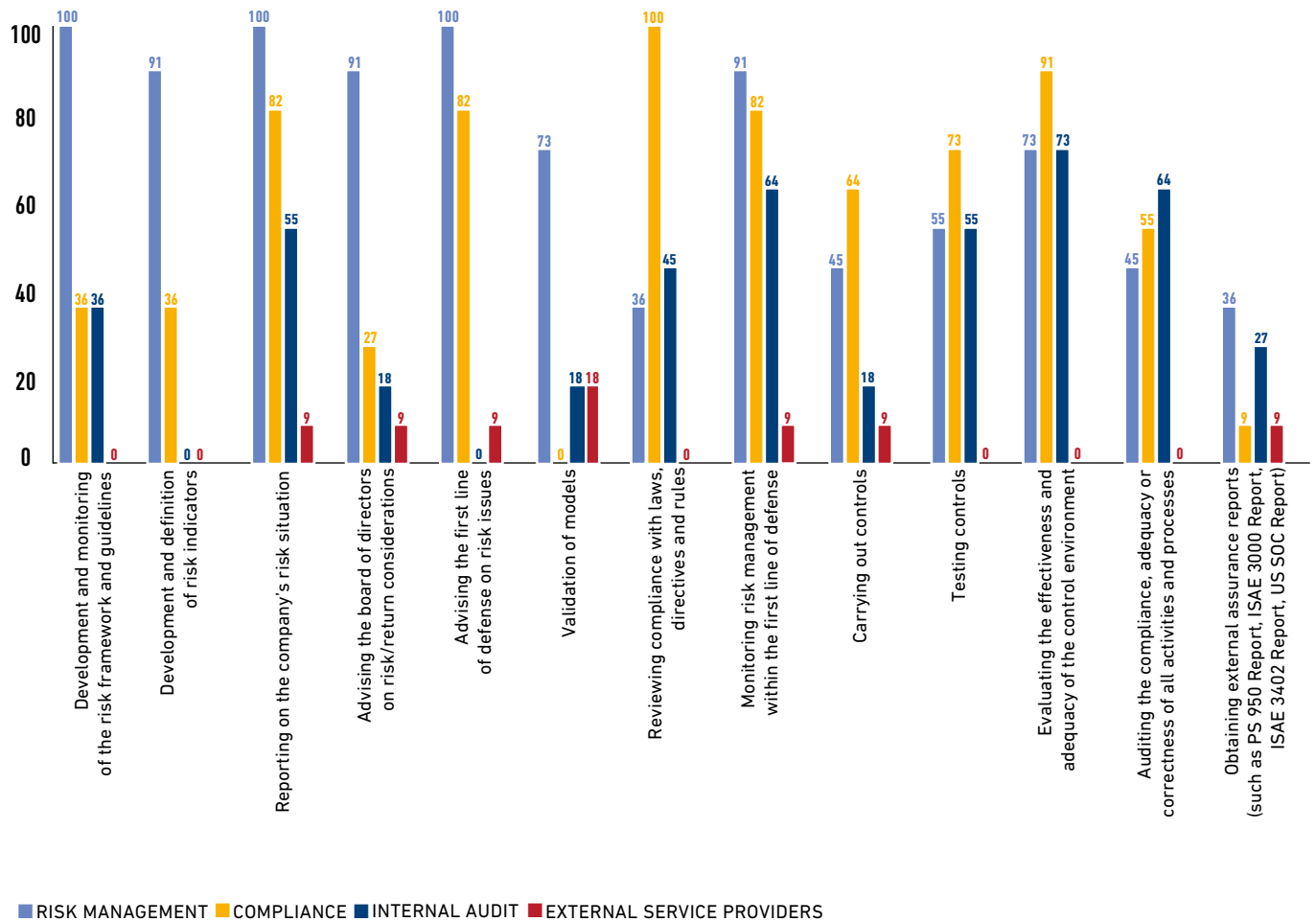
'There is a risk that assurance functions are literally 'independent', but then are unable to gain experience and lose contact with business reality.'

'In order to make good risk decisions, all views should be represented. It is precisely here that the balance mechanism is situated.'

Figure 20: Range of activities performed by risk management, compliance, internal audit and external service providers at life insurers / non-life insurers (n=11)

### LIFE INSURERS / NON-LIFE INSURERS

All figures in percent

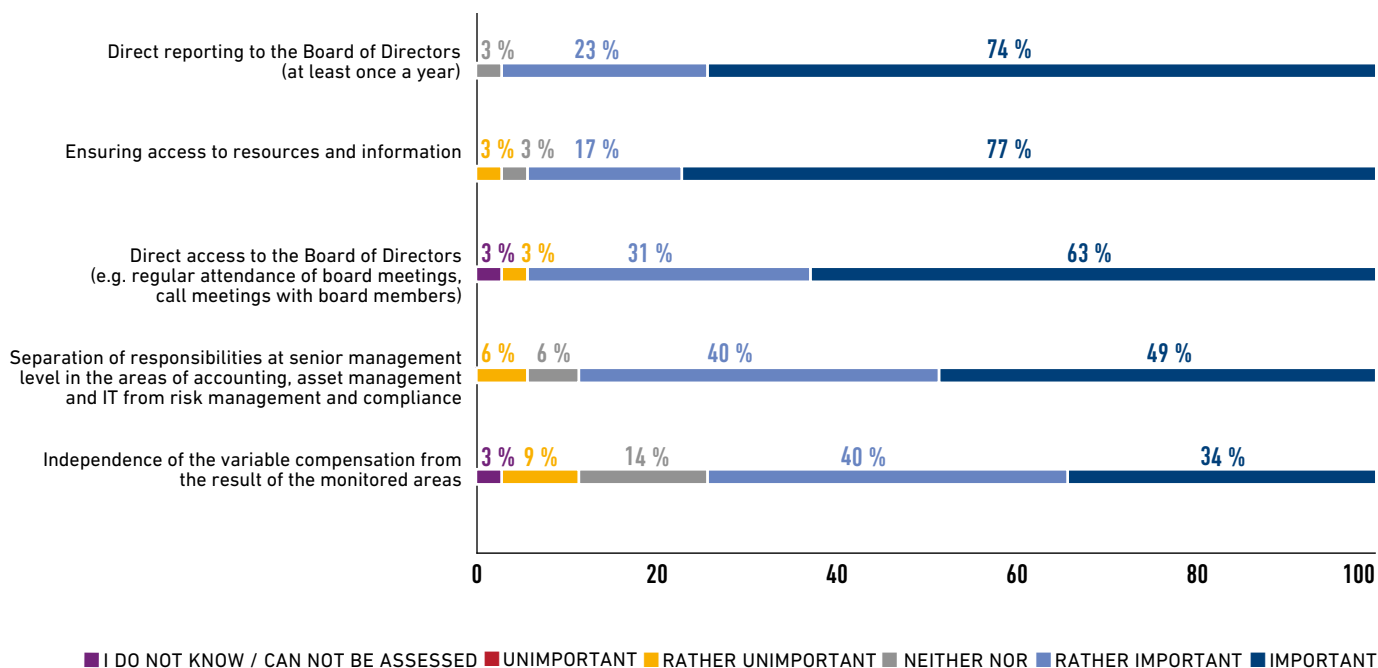


In life and non-life insurance companies, the compliance function is more intensively involved in the various tasks by comparison with health insurers and reinsurers (Figures 16 and 20). Here it emerges that overlaps between areas of responsibility occur, particularly between risk management and compliance. External providers are only entrusted with the tasks surveyed to a very limited extent.

Around 37 % of the companies surveyed indicated that they had created other posts that handled risk and control activities, in addition to the control functions named. Those specified included controlling functions, IT functions, data protection officers and governance units. Human resources units were also mentioned in connection with this.



Figure 21: Importance of the following aspects to ensure the independence of the control functions (n=35)



In the personal interviews it became clear that defining and implementing the independence of the control functions provokes questions and discussions. The importance of the topic is not scrutinised, as the online survey also confirms (Figure 21). It is unclear which implementation method must be established as best practice. All the

aspects surveyed were rated as important by the majority of respondents. In addition, the possibility of direct access to decision-makers, including those outside the governing body, was also mentioned. Evaluation of the findings according to business segment or supervisory category yielded only minimal differences between results.

Figure 22: Proportion of full-time equivalents in the respective functions by supervisory category (n=5, 17, 13)

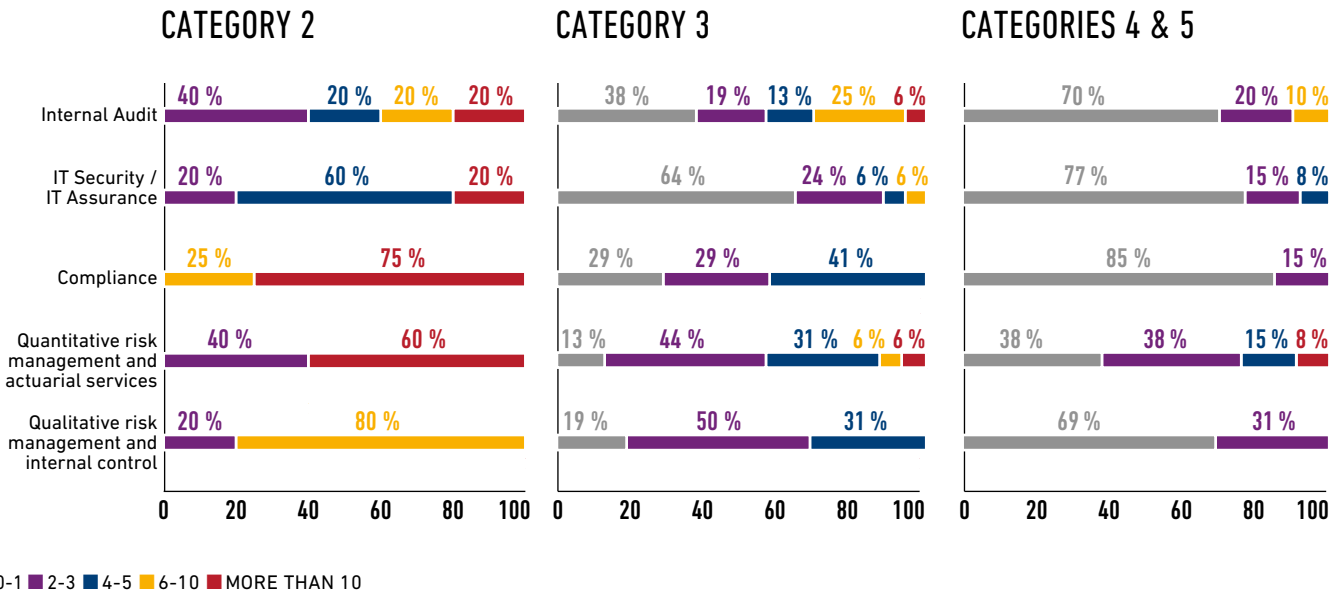
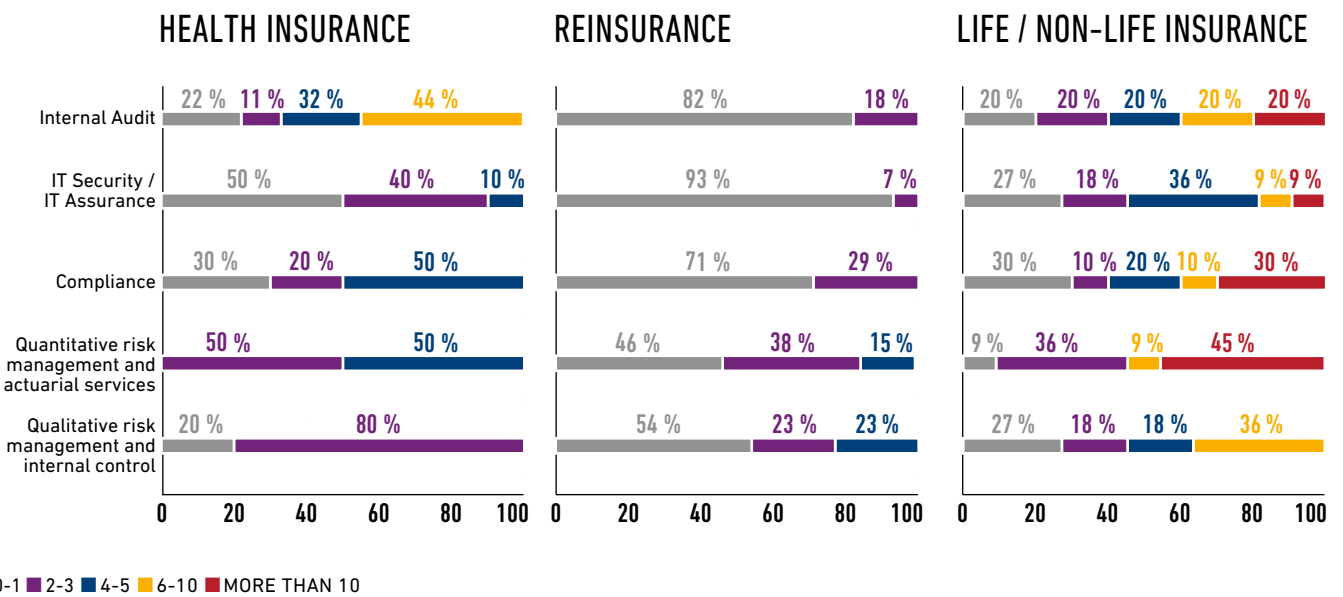


Figure 23: Proportion of full-time equivalents in the respective functions by business segment (n=10, 14, 11)

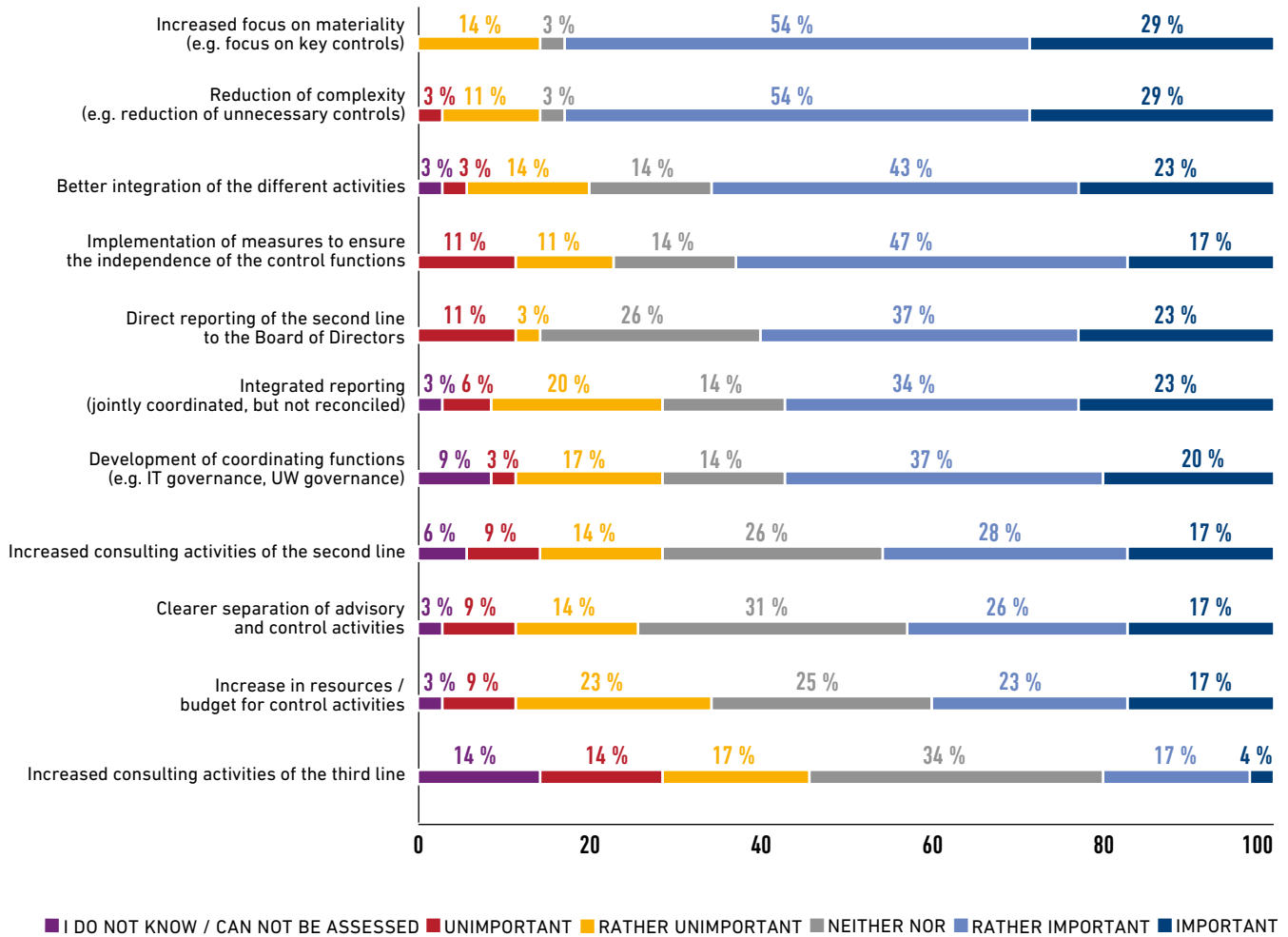


In response to questions about the full-time equivalents in the relevant functions, a uniform picture emerges. The relevant tasks are depicted in Figures 22 and 23. This question also asked about staff in the IT security and IT assurance areas, who however account for a relatively minor percentage. Analysis according to supervisory category shows that smaller insurance companies tend to have the lowest number of staff in the compliance area,

and the largest number in the area of quantitative risk management. Large insurance companies employed the largest number of staff in this control area, along with compliance.

Investigation of the individual business segments did not reveal any conspicuous features in connection with the number of staff.

Figure 24: Most important current trends in relation to the further development of the three lines of defence model (n=35)

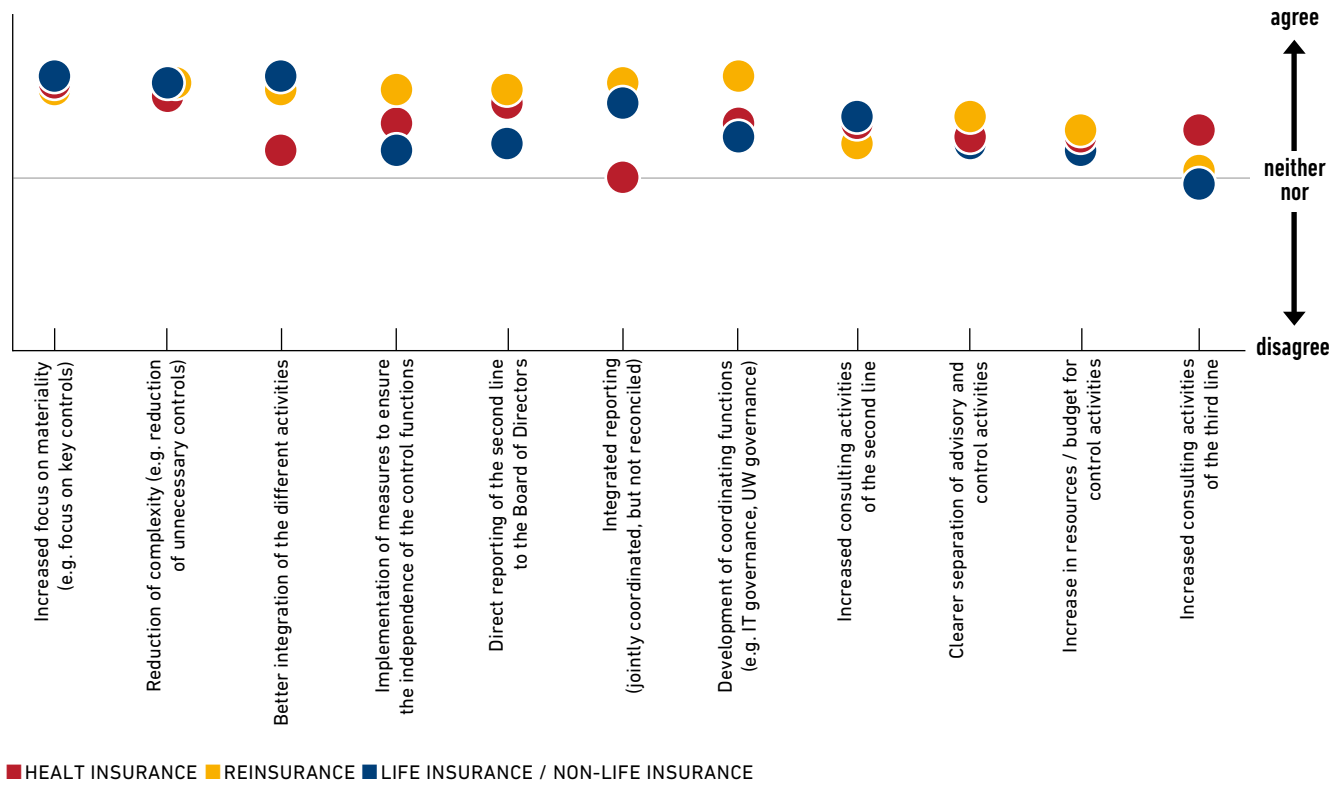


## CURRENT TRENDS

From a sectoral perspective, enquiries about current trends relating to the further development of the Three Lines of Defence model reveal a homogenous picture (Figure 24). Reduction of complexity and increased focus on materiality were both judged to be important or very important by 83 % of respondents. Implementation of measures to ensure independence, a concern of the supervisory board, was regarded as important by 63 %.

**'The business activity is becoming increasingly complex. For example, if you work with start-ups, you must incorporate them into the framework at the right time.'**

Figure 25: Most important current trends in relation to the further development of the three lines of defence model by business segment (by mean, n=35)



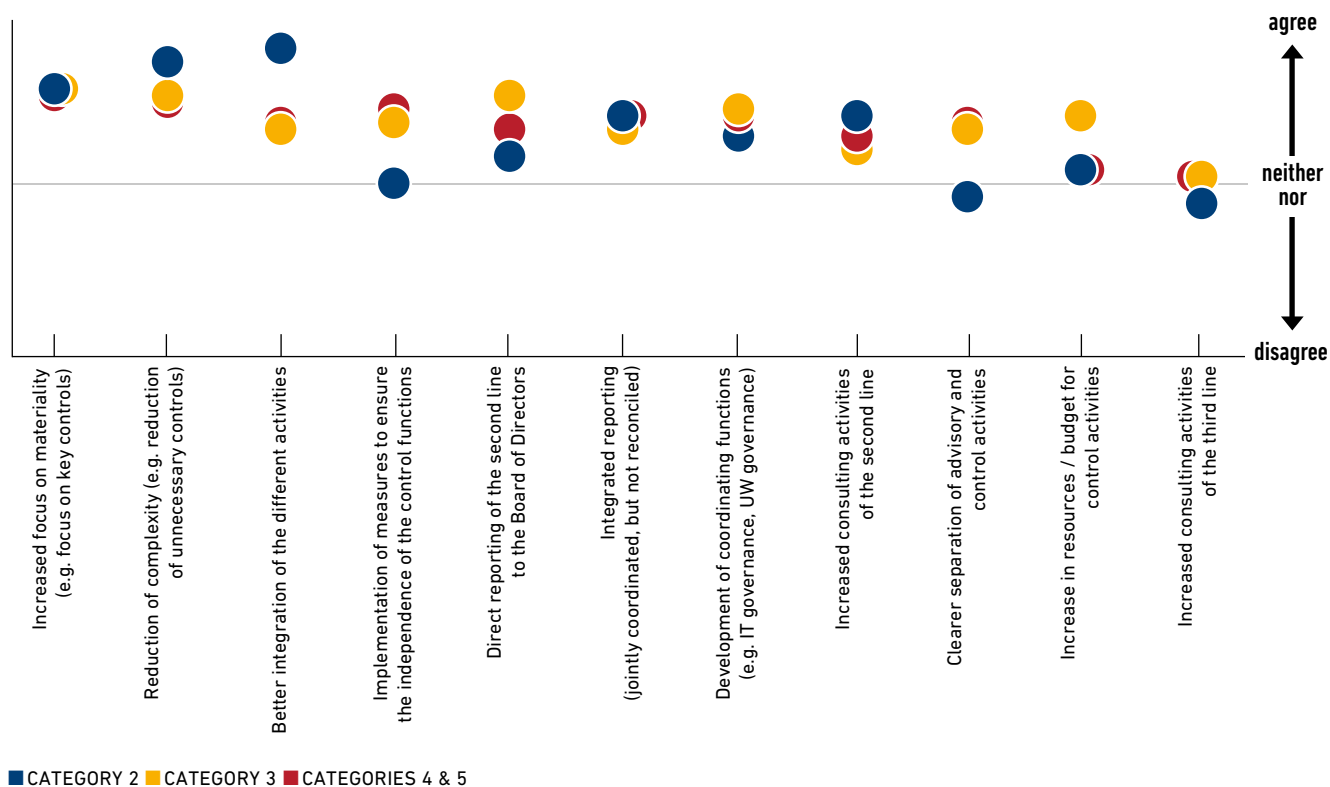
However, the trends surveyed were rated slightly differently by the companies when considered according to their respective business segments (Figure 25). Health insurers, for example, did not regard integrated reporting as a current trend. This is mainly an issue for reinsurers, life insurers and non-life insurers. A similar pattern is seen in the assesment of better integration of the different activities – though it is less highly pronounced. The assesment of increased consulting activities by the third line is the opposite of this. Here health insurers identify a trend, whereas for reinsurers and life / non-life insurers, this is not an issue.

**'We do not want control or measures to be a lifeless corpse. For us, it is a question of real risks, which we cover rigorously with adequate controls. We don't want any alibi controls.'**

**'Consolidation of all currently available tools would meet a great need.'**

**'We notice that testing as a requirement or best practice is a trend.'**

Figure 26: Most important current trends in relation to the further development of the three lines of defence model by supervising category (by mean, n=35)



Analysis of the trends according to supervisory category also results in a differentiated view (Figure 26). Here, category 2 companies accord a considerably higher importance to better integration of the different activities than the other companies surveyed. Conversely, they place more weight on the separation of advisory and control activities.

# OUTLOOK AND AREAS OF ACTION

**The Three Lines of Defence model has been established in Swiss insurance companies for many years. There is considerable agreement on the basic benefit of the model. In particular, the model makes an important contribution to promoting the importance and holistic implementation of risk management objectives. Furthermore, larger companies perceive a clear benefit in the institutionalisation of a balance between risk / control activities and earnings / return activities. The latter also corresponds to the key aim of risk management at an insurance company. The criticisms expressed in the literature regarding false sense of security or weak position of the second line versus the first seems to play no role, or only a subordinate one. For Swiss insurers, four areas of action stand out:**

## FOUR AREAS OF ACTION

1. The tasks of the control functions are in a state of transformation. Here, the model only provides a basic structure. Insurance companies are recommended to define the organisational embedding of the control functions, together with their roles, competencies and responsibilities, clearly and consciously, and to communicate them. At present best practice has not yet become apparent. Rather, insurance companies should choose a form of organisation that suits their company, and which optimally implements the overarching goals of company management and control.
2. In this connection, the issue of the requirement for independence of the control functions also arises. The study participants recognise the importance of organisational measures. The supervisory body also places a high value on the independence of the control functions. However, an implementation of the requirement for independence that is too formal and rigid harbours the risk of undermining the meaning and purpose of the model. Co-operation between the three lines is essential, and assessment of its effectiveness should be periodically analysed.
3. It is necessary to safeguard the most important benefit of the model – its simplicity and comprehensibility – and its most important line of defence, the role of the risk owner. Against this background, the fact that the focus on materiality, reduction of complexity and better integration of control activities are mentioned as the most important current trends must be seen as a positive sign. Focusing can be fostered by cross-sector discussion and definition of the essential business areas.
4. At present, alternative business models and new forms of collaboration, as well as behaviour- or context-dependent insurance solutions, are transforming the insurance industry. The model should be implemented in such a way that it makes an optimum contribution to the culture and operational implementation of risk-oriented company management, which contributes to the success of the company proactively and sustainably, and does not limit itself to the role of reactive control.

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