Finansinspektionen's Regulatory Code

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Finansinspektionen's regulations and general guidelines regarding group own funds and group required solvency margins for insurance undertakings and mutual benefit societies belonging to a group

decided on 20 March 2002.

Finansinspektionen prescribes the following.

Below the paragraphed regulations, Finansinspektionen provides *General Guidelines.*

Introduction

Section 1 The Insurance Group Directive[1] contains rules for calculating an insurance undertaking's adjusted financial position. Most of the provisions were implemented via Chapter 7a of the Insurance Business Act (1982:713), and, for mutual benefit societies, via sections 26a–h of the Mutual Benefit Societies Act (1972:262).

The Insurance Group Directive describes different methods for calculating group own funds and group required solvency margins. It is laid down by law that the adjusted financial position shall primarily be calculated in accordance with the deduction and aggregation method. However, given sufficient cause, the accounting consolidation-based method may be used instead.

These regulations introduce the Directive's provisions concerning the use and content of the method of calculation. The regulations apply to insurance undertakings and mutual benefit societies in insurance groups within the meaning of Chapter 7a, section 1, first paragraph, points 1 and 2 of the Insurance Business Act and section 26a of the Mutual Benefit Societies Act. In accordance with Chapter 7a, section 6 of the Insurance Business Act and section 26e of the Mutual Benefit Societies Act, these insurance undertakings and mutual benefit societies shall provide Finansinspektionen with information about group own funds and group required solvency margins.

The regulations shall be applied when an insurance undertaking or a mutual benefit society has an insurance undertaking or foreign insurance or reinsurance undertaking based within or outside the EEA as a subsidiary or associated company (insurance group 1) and when an insurance undertaking is a subsidiary to an insurance holding company, a foreign reinsurance undertaking based within the

[1] Council Directive 98/78/EC of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group (OJ L 330, 5.12.1998 pp. 1-12, Celex 31998L0078).

EEA or an insurance or reinsurance undertaking based outside the EEA (insurance group 2). Insurance undertaking refers in this regulation to Swedish insurance or reinsurance undertakings.

This regulation shall also apply to undertakings that are not subsidiaries or associated companies if the holding directly or indirectly totals 20 per cent or more of the votes or capital.

The rules for calculation in accordance with the deduction and aggregation method are set out in sections 4-9, and the rules for the accounting consolidation-based method in sections 10-12.

General guidelines

The accounting consolidation-based method may be used instead of the deduction and aggregation method where sufficient cause exists. This assessment should be based on the supervisory authority's need for information for purposes of control. This alternative method should therefore present an equally sufficient overview of the position of the group as the default method. The insurance undertaking should also prepare consolidated accounts.

Section 2 The parent insurance undertaking or the parent mutual benefit society (insurance group 1) and the subsidiary insurance undertaking (insurance group 2) shall, on an annual basis unless granted an exception, provide a report of their consolidated own funds and solvency margin. The report shall use the form in *Appendix 1*, for which instructions are found in *Appendix 2*. Finansinspektionen shall have received the report no later than 15 May.

General guidelines

Exceptions to the obligation set out in section 2 to prepare and submit information to Finansinspektionen are set out in Chapter 7a, section 7 of the Insurance Business Act. Exception may be granted to an insurance undertaking if a group solvency report is prepared by another undertaking in the group and the insurance undertaking is included in this report.

The primary rule is otherwise that group solvency reports shall be prepared by each insurance undertaking holding shares in another insurance undertaking or foreign insurance or reinsurance undertaking based in or outside the EEA regardless if successive ownership means that reports are prepared several times for the same group. The same applies to each insurance undertaking owned by an insurance holding company, a foreign reinsurance undertaking based in the EEA or an insurance or reinsurance undertaking based outside the EEA.

Subsidiaries and associated companies

Section 3 When calculating group own funds and group required solvency margins, an insurance undertaking's or mutual benefit society's directly or indirectly owned subsidiaries and associated companies that are insurance undertakings shall be taken into account proportionately based on the insurance undertaking's or the mutual benefit society's portion of the subscribed capital. However, this does not apply if a subsidiary is reporting a solvency deficit. In such cases, the deficit shall be treated as if the subsidiary were wholly-owned. However, exceptions may be granted and the calculation may be proportional if the parent undertaking can demonstrate that its responsibility strictly and conclusively is limited to the share of the capital.

When calculating group own funds and group required solvency margins, directly and indirectly owned subsidiaries and associated companies that are insurance holding companies or foreign insurance or reinsurance undertakings based in or outside the EEA shall be treated equal to an insurance undertaking.

General guidelines

Full or partial exceptions to the group of undertakings that are subject to the calculation and set out in section 3 can be granted pursuant to Chapter 7a, section 8 of the Insurance Business Act, for example when the undertaking is located in a country outside the EEA and there are legal obstacles hindering the transfer of necessary information. In this case, the provisions set out in section 13 regarding insufficient information shall apply.

Deduction and aggregation method

Section 4 The financial position of insurance group 1 is determined using the deduction and aggregation method by deducting the group required solvency margin calculated in accordance with section 9 from the group own funds calculated in accordance with sections 5-8.

The adjusted financial position of insurance group 2 is calculated in the same manner as for insurance group 1. In this context, the parent insurance holding company, foreign reinsurance undertaking based in the EEA or insurance or reinsurance undertaking based outside the EEA shall subsequently be treated as a parent insurance undertaking.

Calculating group own funds

Section 5 Group own funds consist of the sum of the own funds in the parent insurance undertaking or the parent mutual benefit society and the share of the own funds in directly and indirectly owned subsidiaries and associated companies that are insurance undertakings. Sections 6-8 shall be taken into account during these calculations and the appropriate deductions made.

When calculating group own funds, Chapter 7, section 22, section 24 and section 26, third paragraph, first sentence of the Insurance Business Act and Finansinspektionen's regulations regarding the obligation of Swedish insurance undertakings to provide disclosures of solvency shall be applied where applicable.

Section 6 Deductions shall be applied to the group own funds in accordance with section 5 for the value of assets held by the parent insurance undertaking or the parent mutual benefit society or its subsidiaries and associated companies that refer to the funding of items included in the own funds for any other insurance undertakings in the group.

General guidelines

Deductions within the meaning of section 6 shall be made e.g. for shares and subordinated loans in associated and subsidiary insurance undertakings that are held or were issued by the parent insurance undertaking.

Section 7 Without prejudice to the provisions set out in section 6, the following items (1-3) in subsidiary and associated insurance undertakings may be included in the group own funds in accordance with section 5 under the condition that they may be included in the own funds for each subsidiary or associated insurance undertaking:

1. subscribed but unpaid share capital and guarantee capital,
2. profit reserves and future profits arising in life insurance undertakings,
3. items that in practice cannot be made available to the parent insurance undertaking or the mutual benefit society.

However, the sum of points 1-3 may not exceed the required solvency margin of each subsidiary and associated insurance undertaking.

Subscribed but unpaid capital, as referred to in point 1, and such capital in the parent insurance undertaking shall be deducted from the group own funds if subscribed by a subsidiary or associated insurance undertaking.

General guidelines

Section 7 refers to items that may be included in the own funds for individual insurance undertakings but are not distributable and therefore in practice cannot be made available for the group as a whole. As a result, these items may only be used to cover the solvency margin in the undertaking in which they originated and any surplus shall be calculated as zero in group calculations.

The first paragraph, point 2 refers to items that only after application to Finansinspektionen may be included in own funds. Specifically, future profits from life insurance undertakings reported as C-items in the form for the disclosure of own funds and solvency margins for Swedish life insurance undertakings only conducting life insurance business. Examples of items in the first paragraph, point 3 include surpluses that cannot be distributed as profit to shareholders.

Section 8 Deductions shall be applied to the total calculated in accordance with section 5 for the following items, where all undertakings in the group are taken into account.

- Items in the insurance undertaking's or the mutual benefit society's own funds that originated from reciprocal financing between the undertaking and another undertaking in the group,
- Items in a subsidiary or associated insurance undertaking's own funds that originated from reciprocal financing between the subsidiary or associated insurance undertaking and another undertaking in the group.

General guidelines

Section 8 refers to a larger group of undertakings than section 6. The purpose of section 6 is to eliminate possible double utilisation of items in the own funds and therefore only affects undertakings for which own funds shall be calculated in accordance with these provisions. Deductions for items as set out in section 8 shall, on the contrary, be made for all undertakings in which reciprocal financing occurs, for example in the event of cross-ownership or internal subordinated loans between parent undertakings and subsidiaries and when undertakings are simultaneously both lenders and borrowers.

Calculating group required solvency margin

Section 9 The group required solvency margin is calculated as the sum of

- the required solvency margin for the parent insurance undertaking or the parent mutual benefit society, and
- the insurance undertaking's or mutual benefit society's share of the required solvency margin of its subsidiary and associated insurance undertakings

The required solvency margin shall be calculated in accordance with the rules for non-life insurance and life insurance, respectively, as set out in Chapter 7, sections 23 and 25 of the Insurance Business Act. If the required solvency margin for life reinsurance cannot be calculated without significant difficulty it may instead be determined using the premium index applied to non-life insurance.

Insurance holding companies are not subject to a solvency requirement when calculating group required solvency margins.

The accounting consolidation-based method

Section 10 The financial position for insurance group 1 in accordance with the accounting consolidation-based method is based on information in the consolidated accounts prepared by the insurance undertaking or mutual benefit society. The financial position is determined by deducting the group required solvency margin in accordance with section 12 from the group own funds in accordance with section 11.

The adjusted financial position of insurance group 2 is calculated in the same manner as for insurance group 1. In this context, the parent insurance holding company, foreign reinsurance undertaking based in the EEA or insurance or reinsurance undertaking based outside the EEA shall subsequently be treated as a parent insurance undertaking.

General guidelines

The accounting consolidation-based method is based on information from the consolidated accounts and should therefore only be used for undertakings included in such accounts. This means that there may be cause for an insurance group to make multiple calculations, of which one using the accounting consolidation-based method for the undertakings included in the consolidated accounts and to which a supplement is added for e.g. life insurance undertakings with profit distribution restrictions that are included in the group.

Calculating group own funds

Section 11 The group own funds are determined by totalling the items in the consolidated accounts that can be included in the own funds of each insurance undertaking. Hereto applies the provisions set out in section 5, second paragraph.

To the extent the accounting consolidation-based method has not already taken into account the provisions set out in sections 6-8, these principles shall be applied and where applicable deductions made.

Calculating group required solvency margin

Section 12 The group required solvency margin is determined by either

1. the sum of the parent insurance undertaking's or the parent mutual benefit society’s required solvency margin and its share of the required solvency margins for the insurance undertaking's or mutual benefit undertaking's associated or subsidiary insurance undertakings, or

2. a new group required solvency margin calculated using the information in the consolidated accounts.

When calculating in accordance with the first paragraph, point 1, the insurance undertaking's or mutual benefit society's share of the required solvency margin of its associated or subsidiary insurance undertakings shall correspond to the percentages used in the preparation of the consolidated accounts.

When calculating the group required solvency margin, the provisions in section 9, second paragraph apply.

Insufficient information

Section 13 If there is insufficient information for calculating the adjusted financial position for a subsidiary insurance or reinsurance undertaking based outside the EEA, the undertaking's book value shall be deducted from the items that may be included in the adjusted own funds. In such cases, unrealised profits associated with the subsidiary undertaking may not be included.

These regulations and general guidelines shall enter into force 31 March 2002 and shall be applied to information referring to the 2001 financial year onward.

CLAES NORGREN

Bo Lundgren

Appendix 1

DISCLOSURE OF GROUP OWN FUNDS AND GROUP REQUIRED SOLVENCY MARGIN

INSTITUTION		PERIOD	INSTITUTION NUMBER
HANDLED BY	TELEPHONE NUMBER		COMP. REG. NO.

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I hereby certify that the information in this report is accurate.

Signature of chief officer	Date	Signature of administrator	Date

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FINANSINSPEKTIONEN
BOX 6750
113 85 STOCKHOLM

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FAX
08-24 13 35

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firapp@fi.se

DISCLOSURE OF GROUP OWN FUNDS AND GROUP REQUIRED SOLVENCY MARGIN

INSTITUTION		PERIOD	INSTITUTION NUMBER
HANDLED BY	TELEPHONE NUMBER		COMP. REG. NO.

Amounts indicated in SEK thousand without decimals

A. GENERAL INFORMATION

Choice of method

A1 Default method	(Mark with the number 1)	
A2 Accounting consolidation-based n	(Mark with the number 1)	

Associated insurance undertakings

Some associated insurance undertakings are treated as wholly-owned due to a solvency deficit

A3 YES	(Mark with the number 1)	
A4 NO	(Mark with the number 1)	

Exceptions

Finansinspektionen has granted exceptions of one or more undertakings from the reporting of group own funds and group required solvency margin.

A5 YES	(Mark with the number 1)	
A6 NO	(Mark with the number 1)	

DISCLOSURE OF GROUP OWN FUNDS AND GROUP REQUIRED SOLVENCY MARGIN

INSTITUTION		PERIOD	INSTITUTION NUMBER
HANDLED BY	TELEPHONE NUMBER		COMP. REG. NO.

Amounts indicated in SEK thousand without decimals

B. DEFAULT METHOD (Deduction and aggregation method)

B1	Own funds before eliminations	
B2	- of which equity	
	Eliminations:	
B3	Book value of shares in subsidiary and associated insurance undertakings	
B4	Subordinated loans	
B5	Reciprocal financing	
B6	Deduction as per section 7 of FFFS 2002:4 according to which the sum of items may not exceed the required solvency margin in each subsidiary and associated insurance undertaking	
B7	Other deductions	
B8	Group own funds, Total A (B1 - (B3:B7))	=
B9	Group required solvency margin	
B10	Surplus/deficit (B8 - B9)	=

DISCLOSURE OF GROUP OWN FUNDS AND GROUP REQUIRED SOLVENCY MARGIN

INSTITUTION		PERIOD	INSTITUTION NUMBER
HANDLED BY	TELEPHONE NUMBER		COMP. REG. NO.

Amounts indicated in SEK thousand without decimals

C. ACCOUNTING CONSOLIDATION-BASED METHOD

Group own funds

C1	Own funds according to the consolidated accounts	
C2	Own funds for group undertakings not included in the consolidated accounts	
C3	Own funds before eliminations, (C1+C2) =	
C4	- of which equity	

Eliminations not already taken into account in the consolidated accounts:

C5	Book value of shares in subsidiary and associated insurance undertakings	
C6	Subordinated loans	
C7	Reciprocal financing	
C8	Deductions as per section 7 of FFFS 2002:4 according to which the sum of items may not exceed the required solvency margin in each subsidiary and associated insurance undertaking	
C9	Other deductions	
C10	Group own funds, (C3 - (C5:C9)) =	

Group required solvency margin

C11	Alt 1.The parent insurance undertaking's or the parent mutual benefit society's required solvency margin plus its share of the required solvency margin in the insurance undertaking's or the mutual benefit society's subsidiary and associated insurance undertakings.	
C12	**Alt 2. Group required solvency margin calculated on the basis of information in the consolidated accounts.**	
C13	Surplus/deficit (C10 - (C11 or C12))	

BASIS FOR CALCULATION USING THE DEFAULT METHOD (Deduction and aggregation method)

INSTITUTION		PERIOD	INSTITUTION NUMBER
HANDLED BY	TELEPHONE NUMBER		COMP. REG. NO.

Amounts indicated in SEK thousand without decimals

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	Total (transferred to Form B)				
Name of insurance undertaking					
Participation in per cent (2 decimals)					
B1 Own funds before eliminations					
B2 - of which equity					
Eliminations:					
B3 Book value of shares in subsidiary and associated insurance undertakings					
B4 Subordinated loans					
B5 Reciprocal financing					
B6 Deductions as per section 7 of FFFS 2002:4 according to which the sum of items may not exceed the required solvency margin in each subsidiary and associated insurance undertaking					
B7 Other deductions					
B8 Group own funds, Total A (B1 - (B3:B7)) =					
B9 Group required solvency margin					
B10 Surplus/deficit (B8 - B9) =					

Instructions for the form "Disclosure of group own funds and group required solvency margin"

General instructions

All amounts shall be specified in SEK thousand without a decimal point and rounded in accordance with applicable rules. Amounts below SEK 500 are reported as 0.

A. General information

- The first page of the form contains special information for Finansinspektionen. If any of the stated descriptions are appropriate, this should be indicated by placing a number 1 in the box.
- The calculated group own funds, the group required solvency margin and the surplus/deficit should be presented on the first page of the form.

B. The default method (deduction and aggregation method)

General instructions

- This form is a summation of the undertakings included in the group solvency report. The information from each undertaking included in the report is entered on p. 11 (the basis for the calculation in accordance with the default method).
- When using the default method, the report only includes insurance undertakings. The term "insurance undertakings" in this context also includes foreign insurance undertakings. However, note that the elimination made for reciprocal financing in accordance with that set out below also takes into account other undertakings in the insurance group.
- When applying the default method, the financial accounts of foreign subsidiaries prepared in accordance with local accounting principles may be used if they have not been adjusted to take into consideration Swedish accounting principles. The items that may be used from these accounts to calculate the group own funds and group required solvency margin are however presented below.

B1 *Own funds before eliminations*
Items that may be included in own funds for each insurance undertaking are set out in Chapter 7, sections 22 and 24 and section 26, third paragraph, first sentence of the Insurance Business Act, and Finansinspektionen's regulations regarding the obligation of Swedish insurance undertakings to provide a disclosure of solvency shall be applied where applicable.

The amount of own funds before eliminations that is represented by equity shall be provided.

B3 *Book value of shares in associated and subsidiary insurance undertakings*
Each insurance undertaking included in the group own funds and group required solvency margin reporting shall deduct the book value of its shares and participations in other included undertakings. Shares in owned insurance holding companies shall also be eliminated.

B4 *Subordinated loans*
Refers to subordinated loans between undertakings included in the reporting of group own funds and group required solvency margin.

B5 *Reciprocal financing*
Refers to all types of reciprocal financing within an insurance group as defined in Chapter 7a, sections 1 and 2 of the Insurance Business Act. It also refers to undertakings not included in the reporting of group own funds but that are part of the extended insurance group as set out in Chapter 7a, section 2 of the Insurance Business Act.

One example is an undertaking included in the reporting that is a lender and a borrower for a subordinated loan for the same amount to a counterparty in the insurance group that is not included in the reporting of group solvency. This means that the own funds of the undertaking included in the reporting increased without any new external capital contributions to the insurance group.

B6 *Deduction since the sum of items in accordance with section 7 of FFFS 2002:4 may not exceed the required solvency margin in each subsidiary or associated company*
According to section 7 of these regulations, certain items may be included in the group own funds but not at a higher value than what corresponds to the required solvency margin in each subsidiary and associated insurance undertaking. Deductions shall be made in such a manner that the items do not result in a surplus in the group solvency calculation.

This type of deduction shall be made when taking into account a life insurance undertaking of which the profits are not available to the group (non-profit-distributing). Even undertakings that are profit-distributing but are owned by undertakings that are non-profit-distributing and the profit of which therefore cannot be made available to the group shall make deductions in such a manner that the items do not result in a surplus in the group solvency calculation.

B7 *Other deductions*
Deductions that cannot be placed under other headings but refer to situations that could give rise to double utilisation of items in the group own funds unless a deduction is made shall be disclosed here.

B9 *Group required solvency margin*
Each insurance undertaking's solvency margin is calculated in accordance with Chapter 7, sections 23 and 25 of the Insurance Business Act and Finansinspektionen's regulations regarding the obligation of Swedish insurance undertakings to provide a disclosure of solvency where applicable.

Insurance holding companies are not subject to a solvency requirement when calculating group required solvency margins.

C. Accounting consolidation-based method

General instructions

When using the accounting consolidation-based method, the report is based on the information in the consolidated accounts. Therefore, this method also includes undertakings that are not insurance undertakings.

C1 *Own funds according to the consolidated accounts*
The items that may be included in the own funds in accordance with sections 22 and 24 and section 26, third paragraph, first sentence of the Insurance Business Act and Finansinspektionen's regulations regarding the obligation of Swedish insurance undertakings to provide a disclosure of solvency where applicable shall be taken from the consolidated accounts.

If a subsidiary that is not wholly owned is fully consolidated and as a result there is a minority interest, the entire minority interest may be included in the group own funds.

Deferred tax arising in the consolidated accounts for untaxed reserves that may be included in the own funds in the declaration of solvency for individual undertakings may be included in the report of group own funds.

C2 *Own funds for undertakings included in the insurance group but not consolidated in the consolidated accounts*
Own funds for undertakings included in the reporting of group own funds and group required solvency margin but not consolidated in the consolidated accounts are added separately.

Examples of this type of undertaking include life insurance undertakings that may not distribute profits. Profit-distributing undertakings owned by non-profit-distributing undertakings and therefore not consolidated in the consolidated accounts shall also be taken into account.

Eliminations not already taken into account in the consolidated accounts

Most items that could be utilised twice in own funds should normally be eliminated in the consolidated accounts on which the reporting is based. However, items referring to participation in undertakings included in the reporting of group own funds and group required solvency margin but that have not been consolidated in the consolidated accounts must be eliminated separately.

C5 *Book value of shares in associated and subsidiary insurance undertakings*
Elimination of the book value of shares in undertakings not consolidated in the consolidated accounts but included in the group solvency calculation, e.g. shares in life insurance undertakings that may not distribute profits.

Shares in subsidiary insurance holding companies shall also be eliminated, if this has not already occurred in the consolidated accounts.

C6 *Subordinated loans*
Refers to subordinated loans between undertakings included in the reporting of group own funds and group required solvency margin not already eliminated from the consolidated accounts.

C7 *Reciprocal financing*
Refers to all types of reciprocal financing within an insurance group as defined in Chapter 7 a, sections 1 and 2 of the Insurance Business Act not previously eliminated from the consolidated accounts. This also refers to undertakings not included in the reporting of group own funds but are a part of the extended insurance group as set out in Chapter 7a, section 2 of the Insurance Business Act.

One example is an undertaking included in the reporting that is a lender and a borrower for a subordinated loan for the same amount to a counterparty in the insurance group not included in the reporting of group solvency. As a result, the own funds have increased in the undertaking included in the reporting without any new external capital contributions to the insurance group.

C8 *Deduction since the sum of items in accordance with section 7 of FFFS 2002:4 may not exceed the required solvency margin in each subsidiary or associated company*
According to section 7 of these regulations, certain items may be included in group own funds but not at a higher value than what corresponds to the required solvency margin in each subsidiary and associated insurance undertaking. Deductions shall be made in such a manner that the items do not result in a surplus in the group solvency calculation.

This type of deduction shall be made when taking into account life insurance undertakings the profits of which are not available to the group (non-profit-distributing). Profit-distributing undertakings owned by non-profit-distributing undertakings and the profit or loss of which therefore cannot be made available to the group as a whole shall make deductions in such a manner that the items do not result in a surplus in the group solvency calculation.

C9 *Other deductions*
Deductions that cannot be placed under any other heading but refer to situations giving rise to double utilisation of items in the own funds unless a deduction is made shall be made here.

C11/C12 *Group required solvency margin*
There are two methods for calculating the group required solvency margin when using the accounting consolidation-based method.

The required solvency margins are either totalled for each undertaking included in the reporting (alt. 1), or a new group required solvency margin is calculated based on the information in the consolidated accounts (alt. 2). If the calculation applies alt. 2, required solvency margins in undertakings included in the reporting of group own funds and group required solvency margins but not consolidated in the consolidated accounts, e.g. life insurance undertakings that may not distribute profits need to be added.

Regardless of which alternative is applied, Chapter 7, sections 23 and

25 of the Insurance Business Act and Finansinspektionen's regulations regarding the obligation of Swedish insurance undertakings to provide a disclosure of solvency where applicable when calculating the solvency margin.