

Finansinspektionen's Regulatory Code

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Regulations amending Finansinspektionen's regulations and general guidelines (FFFS 2011:39) regarding information about insurance and occupational pensions;

**FFFS 2013:5
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decided on 21 May 2013.

Finansinspektionen prescribes pursuant to section 7, points 2, 5 and 6 of the Payment Services Ordinance (2011:257) with regard to Finansinspektionen's regulations and general guidelines (FFFS 2011:39) regarding information about insurance and occupational pensions

in part that current Chapter 2, section 1, shall be designated Chapter 2, section 2 and that current Chapter 2, section 2 shall be designated Chapter 2, section 1,

in part that the new Chapter 2, sections 1 and 2 shall have the following wording,

in part that Chapter 1, sections 2 and 6 and Chapter 3, section 1 and Chapter 5, section 1 and appendices 2 and 4 shall have the following wording.

Chapter 1

Section 2 These regulations apply to

1. insurance undertakings and foreign insurers with operations in Sweden that provide direct insurance,
2. pension funds as referred to in section 9a, first paragraph of the Safeguarding of Pension Commitments, etc. Act (1967:531), and
3. foreign institutions for occupational retirement provision as referred to in Chapter 1, section 5, point 3 of the Act (1998:293) on Undertakings of Foreign Insurers and Institutions for Occupational Retirement Provision in Sweden.

A pension fund and a foreign institution for occupational retirement provision shall apply only Chapter 2, section 2 and *Appendix 1*.

For sickness and accident insurance provided as a supplement to a life insurance, *Appendix 2* is not be applied.

Section 6 In these regulations and general guidelines, the following definitions apply:

allocated bonus: a bonus that is preliminarily distributed,

inheritance profit: pension income or insurance capital due to the decease of an insured with an insurance that does not have full repayment cover or other survivor benefits which therefore go to other similar contracts,

Depository insurance: traditional insurance that normally does not have guaranteed insurance amounts and for which the policyholder or the insured decides the saving profile by selecting one or more of the investment options offered by the insurance undertaking

a party entitled to payment as a result of the insurance, e.g. a policyholder, the insured or members and beneficiaries,

transfer of an insurance's value: given certain conditions, transfer of insurance capital to another contract, from one insurance undertaking to another or from one type of investment management to another,

paid-up policies: occupational pension insurance or private pension insurance where the agreed premium payments were prematurely terminated and the future pension is based on the premiums already paid,

insurance group: such insurance as referred to in Chapter 9, section 1 of the Insurance Business Act (2010:2043),

guaranteed bonuses: bonuses that are guaranteed in nominal or real amounts via insurance contracts or a unilateral commitment from the insurance undertaking,

geometric mean: n th root of the product of the n positive numbers whose mean shall be calculated. In financial contexts, the numbers whose mean shall be calculated are normally written as

$$1 + \frac{r}{100}$$

where r is an effective yield or an interest rate expressed in per cent. This mean is a more accurate calculation of average yield or average interest rate than a normal arithmetic mean,

an employee or survivor of an employee whose pension is safeguarded by a pension fund or a foreign institution for occupational retirement provision as referred to in Chapter 1, section 5, point 3 of the Act on Undertakings of Foreign Insurers and Institutions for Occupational Retirement Provision in Sweden (1998:293),

Insurance based on collective bargaining agreements: personal insurance or non-life insurance that is

1. taken out by employers to give insurance cover to employees,
2. underwritten pursuant to a collective bargaining agreement specified in the insurance terms and conditions and that was agreed between an employers' organisation or an individual employer and an employees' organisation, and
3. underwritten by an insurance undertaking or a foreign insurer in accordance with the collective bargaining agreement,

solvency ratio: the ratio between the available and required solvency margin in accordance with Chapter 7 of the Insurance Business Act,

occupational pension: a pension for an employee or survivor of an employee which is provided by the employer and based on a collective bargaining agreement or individual agreements between the employee and the employer,

occupational pension insurance: occupational pension in the form of such an insurance as referred to in Chapter 1, section 8 of the Insurance Business Act.

conditional bonus: agreed or unilaterally guaranteed bonus which is conditional upon changes in value and yield on assets or upon a certain actuarial result in respect to which the policyholders or other parties entitled to payment bear the risk, and

surrender: disbursement to the policyholder of an amount that corresponds in full or in part to the value of the insurance before the end of the agreed insurance term.

Chapter 2

Section 1 General provisions on the information covered by these regulations can be found in Chapter 4, section 2 of the Insurance Business Act (2010:2043), Chapter 8, section 1 a of the Act on Undertakings of Foreign Insurers and Institutions for Occupational Retirement Provision in Sweden (1998:293) and section 10 d of the Safeguarding of Pension Commitments, etc. Act (1967:531).

General guidelines

The information should be designed such that it facilitates the decisions that a party intending to take out an insurance or a policyholder may need to make. It should be simple to gain an overview of the insurance's most important characteristics and limitations. Information to be used as a base for a decision that may need to be taken by a person intending to take out an insurance or a policyholder should be presented in consolidated form.

The information should be provided in a document or in any other legible and durable form that is available to the recipient. However, this does not apply to such information referred to in Chapter 5, section 2.

For savings-type pension insurance and capital insurance, the information should clearly state the extent to which the level of the pension amount, insurance amount and any survivor benefits is guaranteed.

For private individual life insurance products characterised by saving, the most important pre-purchase information should be provided in a key investor information document. The key investor information document should follow the standard layout, using the headings set out in Appendix 3, and in general be designed in such a manner as to make it easy for a consumer to compare similar products. If the average yield is calculated as the geometric mean, the comments about the method set out in *Appendix 4* should be taken into account.

Section 2 ¹ An insurance undertaking, a foreign insurer, a pension fund or a foreign institution for occupational retirement provision shall provide information to the policyholder and parties entitled to payment regarding

1. the name, legal form of business entity and complete address of the head office or, where applicable, the address of the agent or branch which has provided the insurance, and

¹ the amendment, if it means that the general guidelines are repealed.

2. 2. the name and address of the foreign insurer's representative for third party motor insurance in Sweden where the insurance is third party motor insurance and the insurer does not have a branch in the country.

For operations with large risks in non-life insurance such as those set out in Chapter 3, section 16 of the Insurance Business Act (2010:2043), only the contract or other documents that provide insurance cover and the insurance application to the extent that it is binding for the application need to contain the information referred to in point 1.

Chapter 3

Section 1 An insurance undertaking or a foreign insurer shall provide information about the following before an insurance contract is underwritten:

- 1. information pursuant to Chapter 2, section 2, and
- 2. the law applicable to the contract, if not Swedish law. Where the parties are free to choose the law, the law of the state that the insurance undertaking or the foreign insurer proposes to choose shall be specified.

For life insurance contracts, information pursuant to Chapter 4, section 2 shall also be provided.

The provision in the first paragraph, point 2 does not apply for non-life insurance if the policyholder is a legal person.

Chapter 5

Section 1 A life insurance undertaking's information on life or occupational pension insurance shall, in addition to that which follows from sections 2 and 3 and Chapters 2-4, contain the information stated in appendix 2.

These regulations shall enter into force on 01 July 2013.

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Appendix 2

Information about life insurance and occupational pension insurance

The appendix is divided into the following sections:

- A. Information before an insurance contract is concluded
- B. Information about the insurance's value in conjunction with a transfer, etc.
- C. Information during the insurance term but prior to payment
- C. Information during the payment period
- E. Additional information concerning occupational pension insurance

A. Information before an insurance contract is concluded

Before an insurance contract is concluded, an insurance undertaking shall provide information pursuant to points 1–20 to the party that has been offered the insurance.

With regard to life insurances only applicable upon death and concluded for a period of not more than five years, or for a premium calculated and determined for not more than five years at a time, however, points 10–17 do not apply.

With regard to unit-linked insurances or depository insurances, points 11–17 do not apply. If, pursuant to such an insurance contract, it is possible that insurance capital cannot be paid due to the absence of a party entitled to payment, points 8 and 9 do not apply, either.

Insurance contracts

An insurance undertaking shall provide information that includes:

1. The term of the insurance contract.
2. Where applicable, how the insurance can be surrendered or changed to a paid-up policy, or how its value can be transferred.
3. The principles for how the value of an insurance is decided if it is surrendered or changed to a paid-up policy, and how the transferable amount is determined if the value of the insurance shall be transferred.
4. In what respects and under which circumstances the insurance undertaking can change the terms and conditions of the contract during the insurance term, particularly with regard to benefits, fees and other charges.
5. The policyholder's right to terminate the insurance contract and how this is done.
6. The main features of the tax rules which apply to the insurance.

Premiums

7. The terms and conditions which apply to premium payments.

8. The proportion of the premiums paid that relate to the main benefit and, where appropriate, supplementary benefits.

Fees and the distribution of profits

9. The principles for how the insurance undertaking's operational and risk expenses shall be covered and how the profit can be distributed.

10. The principles for how the profits shall be allocated between both policyholders and other parties entitled to payment, and what procedures shall be followed when the insurance capital cannot be paid out due to the absence of a party entitled to payment.

11. The principles for how the profit may be used to cover losses.

12. The factors or conditions on which conditional bonus is dependent.

13. The principles for calculating bonuses added to contractual payments.

14. The insurance undertaking's policy on collective consolidation and for the repossession of bonuses (reallocation) where an insurance contract has the allocated bonus option.

15. Information clearly stating which form of bonus or profit the insurance contract may benefit from.

Financial information concerning the insurance undertaking

16. General information about long-term targets for investments that the insurance undertaking has established with an approximate division into

- a) shares and participating interests,
- b) properties and mortgages,
- c) fixed-interest assets, and
- d) other investments.

17. The long-term targets shall be divided into:

- a) total assets,
- b) the assets covering liabilities for conditional bonuses, and
- c) the assets covering liabilities for guaranteed bonuses and other insurance commitments.

For information about the insurance undertaking's historical returns on capital and costs for asset management, industry-wide key figures and measurement methods should be used, if such exist. References to yield history in *Appendix 3*, however, should also be taken into account.

Special information for insurance where the policyholder chooses funds for investing premiums

18. How to change funds and the amount of the fees charged when changing funds.

19. The fees charged by the insurance undertaking to cover any operating expenses and tax, specifying the distribution in terms of

- a) deductions from the premium prior to purchase of units,
- b) any difference between the purchase and sale price of units, and
- c) deductions from the fund's or units' value.

20. A general description of the selection of funds and, upon request by the party being offered the insurance, also information about an individual fund's primary focus.

References to information about funds in *Appendix 3* should also be taken into account.

B. Information about the insurance's value in conjunction with a transfer, etc.

When a policyholder wants to transfer the value of the insurance to another insurance undertaking, the information in points a or b shall be provided.

When an insurance undertaking offers a policyholder the opportunity to transfer the value of the insurance within the same insurance undertaking or insurance group, or to make significant changes in terms and conditions, information shall also be provided in accordance with c. The information shall be provided no later than when the insurance undertaking offers the policyholder the opportunity to accept the offer. An offer by an insurance undertaking to a policyholder to surrender an insurance and take out a new one shall be treated equally as offering to transfer the value of the insurance.

The reference to a policyholder in the first and second paragraphs also includes an employee for whom the employer has signed an occupational pension insurance.

a) An insurance undertaking *from* which the transfer is made shall provide the following information to the policyholder.

1. Information that the previous insurance contract is terminated and that the transferred value will be placed in a new insurance pursuant to a new contract.

2. Where appropriate, the insurance undertaking shall provide information stating

– that the insurance belongs to a special bonus group since the insurance applies with a transfer option,

– the value that will be transferred, the fees that will be charged and the adjustments that will be made to the existing insurance value,

– that the contractual insurance amount and the current risk cover, including the waiver of premium contained in current insurance contracts, may be changed in the new insurance,

– that, in conjunction with unit-linked insurance, the possibility to choose the investment is changed,

– the date upon which the insurance undertaking's responsibility terminates.

b) An insurance undertaking *to* which the transfer is made, where applicable, shall provide the following information to the policyholder.

1. The insurance's value broken down into contractual benefits and other. No such breakdown is required where the entire value is deemed as a premium for a commitment.

2. All information which shall be provided before an insurance contract is concluded pursuant to these regulations. This information does not need to be provided if the transfer was already agreed when the insurance contract was concluded.

c) The insurance undertaking shall give the policyholder such information as makes it clear to him or her what the transfer of the value of the insurance, or the significant change in terms and conditions, entails.

The information shall at least describe differences concerning

1. contractual insurance amount,
2. other insurance benefits,
3. fees, and
4. the financial risk for the policyholder.

C. Information during the insurance term but prior to payment

During the term of the insurance contract and up to payment, an insurance undertaking shall provide information to policyholders and parties entitled to payment including the following.

Amendments

1. Information referred to in A 1-20 which is of major significance for the application of the contract and which is affected by a decided change in legislation, the insurance terms and conditions, the fund rules, or the insurance undertaking's policy regarding collective consolidation. Where the insurance undertaking makes a decision regarding reallocation of bonuses, information about this decision as well as expected effects of the reallocation shall be provided as soon as possible.

Annual information

On an annual basis, the insurance undertaking shall provide information about premiums paid and fees charged for the past period in accordance with the following:

2. Where appropriate, information about

- guaranteed bonuses that were paid or increased the insurance's value during the period,
- conditional bonuses that were paid or changed the insurance's value during the period,
- the insurance's guaranteed value at the beginning and end of the period, or about the guarantee's design, and
- that payment will begin within the next twelve months.

The information about guaranteed or conditional bonus may be replaced by information about the insurance capital at the beginning and end of the period.

3. Where information is provided about allocated bonus, notification that it is included in the insurance undertaking's risk capital and what this entails.

4. Amendments to the principles applied to the calculation of the amounts payable.

5. The payment amount, including any bonus, which would have been payable on death as per the closing date of the past period in cases where this payment deviates from the value of the insurance.

6. Fees that will be charged to the value in conjunction with any surrender or transfer of the value of the insurance.

7. Other fees charged during the period.

8. Other causes material to the change in the insurance's value during the year, such as

- returns allocated to the insurance or preliminarily distributed,
- fees for taxes the insurance undertaking deducted from the value of the insurance,
- risk premiums deducted by the insurance undertaking, and
- inheritance profit assigned to the insurance or preliminarily distributed,

9. In conjunction with the commencement of periodic payments, that the undertaking has utilised its right to change the terms and conditions of the insurance, for example with regard to fees and assumptions about longevity.

10. A reminder that the insurance may need to be reviewed in certain respects, for example beneficiaries, the need for survivor benefits and the choice of funds before the payment period of a unit-linked insurance contract begins.

D. Information during the payment period

During the payment period, an insurance undertaking shall provide the following information to policyholders and parties entitled to payment:

Amendments

1. Information referred to in A 1-20 which is of material significance to the contract and which is affected by a decided change in legislation, the insurance terms and conditions, the fund rules, or the insurance undertaking's policy regarding collective consolidation. Where the insurance undertaking makes a decision regarding reallocation of bonuses, information about this decision as well as expected effects of the reallocation shall be provided as soon as possible.

2. Amendments to the principles or material changes to assumptions used to calculate bonuses added to contractual amounts during the payment period.

Annual information

The insurance undertaking shall annually provide information about the following:

3. Information for the period regarding

- the current amount payable;
- the returns assigned to the insurance or preliminarily distributed,
- fees deducted with regard to taxes,
- other fees that have been deducted, and
- where applicable, information that the benefit payments will cease within the next twelve months.

E. Additional information about occupational pension insurance

An insurance undertaking conducting business related to occupational pension insurance shall observe the following when information is provided to members and beneficiaries.

1. Information about the insurance undertaking

Upon request, members and beneficiaries shall receive a copy of the most recent annual report.

2. Information about pension schemes

If the insurance undertaking safeguards more than one pension scheme, the members and beneficiaries shall upon request receive the annual report for the pension scheme they belong to, if such information is available.

In conjunction with changes to the rules of a pension scheme, the members and beneficiaries shall receive relevant information about the change within a reasonable time following the decision to make the change.

Members and beneficiaries shall receive adequate information regarding the benefits they are entitled to and the payment options that apply when pensions or other benefits become due.

Upon request, members and beneficiaries shall receive detailed and comprehensive information about

- a) how the pension benefits are determined when the full period of service has been earned with regards to a defined-benefit plan,
- b) the size of the pension benefits if employment is terminated, and
- c) terms and conditions for the transfer of pension rights if employment is terminated.

3. Information regarding investment guidelines

An insurance undertaking, upon request by members and beneficiaries or their representatives, shall provide information about investment guidelines prepared pursuant to Finansinspektionen's regulations and general guidelines (FFFS

2011:16) regarding investment guidelines and consequence analyses for institutions conducting occupational retirement provision. The information shall include

- a) a general description of the assets related to the occupational pension,
- b) information regarding yield targets, and
- c) information regarding risk levels in assets and commitments as a whole.

*Appendix 4***Calculation of the geometric mean****Calculation of the average total yield or bonus interest rate using the geometric approach**

The geometric approach is commonly used to calculate funds' average yield over a given period. Under this approach, average yield or accumulation of interest is calculated as an average effective interest rate, i.e. as an average annual interest rate in conjunction with payment in arrears.

In technical terms, the approach can be described with words as follows. The time-weighted mean of the yield or interest rate is calculated based on a time-weighted standard arithmetic mean for corresponding yield or interest rate intensities. The geometric mean is determined then by recalculating the average intensity to a standard effective yield or interest rate.

If the yields or interest rates for which the mean is calculated apply on the basis of the calendar year, the time-weighting is simple and each calendar year is given the same weight. However, if, for example, the bonus interest rates were applied in periods of varying length, expressed in months, they will be time-weighted when calculating the mean. A period of three months is time-weighted at 25 per cent of one year, while a period of twelve months receives a weight of 100 per cent, and so on.

If we assume five calendar year yields $T(1)$, $T(2)$, ..., $T(5)$, e.g. 5%, 6%, 10%, 4% and -1%, the corresponding intensities are $u(1)$, $u(2)$, ..., $u(5)$. The intensities are defined by $u(i) = \log(1+T(i))$, calculated using a base 10 logarithm. In our example, the intensities are $\log 1.05$, $\log 1.06$, ..., $\log 1.2$. Calculate the arithmetic mean $u = [u(1)+u(2)+\dots+u(5)]/5$. The geometric mean is then $10^u - 1$. In our example, the arithmetic mean is 4.81 per cent while the geometric mean is 4.74 per cent. It is possible to prove that the geometric mean is never larger than the arithmetic mean and that they are the same if all inputs are the same.

The geometric mean is fair in the sense that an amount invested at the start of the five-year period has the same end value if it accumulates interest or grows:

- year for year with the five stated amounts, or
- year for year with the same amount, namely the geometric mean.

It follows that the accumulation of interest over the five years using the arithmetic mean results in an amount that is too large and misleading.

An example with varying subperiod lengths: Let the yields or interest rates be the same as in the previous example, but assign the subperiods lengths $t(1)$, $t(2)$, ..., $t(5)$, e.g. 11, 7, 6, 17 and 19 months (still a total of 60 months or five years). The weighted intensities are then given the time-weighted arithmetic mean $u = [11 \cdot u(1) + 7 \cdot u(2) + \dots + 19 \cdot u(5)]/60$. The geometric mean is as before $10^u - 1$. The weighted geometric mean is 3.38 per cent, while correspondingly the weighted arithmetic mean is 3.43 per cent.

To calculate the geometric mean, G , when yield or interest rates are expressed as a per cent, we can use the following formulas:

$$G = 100(10^{UA} - 1)$$

$$UA = \frac{1}{L} \sum_{k=1}^n d_k \log\left(1 + \frac{r_k}{100}\right)$$

$$L = \sum_{k=1}^n d_k$$

d_k = length of the subperiod k

r_k = the yield or interest rate for the subperiod, k , expressed as effective yield or interest rate, in per cent.

The formula can also be written without logarithms:

$$G = 100 \left(\left(\prod_{k=1}^n \left(1 + \frac{r_k}{100} \right)^{d_k} \right)^{\frac{1}{L}} - 1 \right) = 100 \left(\left(\left(1 + \frac{r_1}{100} \right)^{d_1} \cdots \left(1 + \frac{r_n}{100} \right)^{d_n} \right)^{\frac{1}{L}} - 1 \right)$$