

Finansinspektionen's Regulatory Code

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Finansinspektionen's regulations and general guidelines regarding standard regulations for non-life insurance undertakings' calculation of contingency reserves;

FFFS 2011:9

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decided on 17 March 2011.

Finansinspektionen prescribes the following pursuant to the Authorisation for Issuance of Contingency Reserves in Non-life Insurance Undertakings by Finansinspektionen Ordinance (2000:1127), and provides general guidelines.

Chapter 1 Provisions for the contingency reserve

Section 1 The contingency reserve of a non-life insurance undertaking may not, as per the balance sheet date, be reported at an amount exceeding that stipulated in sections 2–7.

No provisions may be made for the contingency reserve for sickness annuities, life annuities or policies with a determined term exceeding ten years. However, the undertaking may make contingency reserve provisions for sickness and life annuities with respect to incurred but not reported claims.

Section 2 An undertaking's maximum contingency reserve is the highest of:

1. the total of the maximum amounts per class of insurance set forth in sections 4 and 5,
2. an amount of SEK 2.5 million, or
3. three times the highest actual retention for an individual risk.

The classes of insurance correspond essentially with those applicable in a profit/loss analysis according to Finansinspektionen's regulations and general guidelines (FFFS 2008:26) governing the annual accounts at insurance companies. For insurance policies that do not fall within the stated classes of insurance, no basis for contingency reserve provisions may be included.

General guidelines

The rule on limitation according to point 3 should be interpreted as the retention that applies in the company's reinsurance agreement for individual risks; not as, for example, the maximum claim cost according to any stop loss agreement. The calculation should disregard the (expected) number of reinstatements.

Section 3 The maximum amount for a particular class of insurance is calculated as shares of premium income and provisions for outstanding claims, in both cases for own account and for each individual class of insurance. Provisions for known

outstanding claims concerning sickness and life annuities shall, pursuant to section 1, not be included in the calculations.

Section 4 To determine the maximum amount, the following formulas shall apply.

The premium income is indicated by P and provisions for outstanding claims by E.

UK refers to the equalisation provision for direct credit insurance pursuant to Chapter 5, section 10 of the Insurance Business Act (2010:2043). The maximum amount for credit insurance is reduced by the value of this reserve, but shall be a minimum of 0.

a. Direct insurance in Sweden, excluding credit insurance and suretyship insurance

Insurance related to:

– Sickness and accident insurance:	$0.10P+0.15E$
– Worker's compensation insurance:	$0.00P+0.45E$
– Home insurance:	$0.80P+0.15E$
– Commercial property and casualty insurance:	$0.50P+0.15E$
– Motor vehicle insurance:	$1.00P+0.15E$
– Third party motor insurance:	$0.15P+0.15E$
– Marine insurance:	$1.75P+0.15E$
– Aviation insurance:	$2.15P+0.15E$
– Transport insurance:	$0.45P+0.15E$
– Redundancy-pay insurance:	$0.30P+0.15E$
– Hail damage insurance:	$1.20P+0.15E$
– Livestock and domestic animal insurance:	$0.60P+0.15E$
– Unemployment insurance	$3.00P$

b. Direct insurance, except for credit insurance and suretyship insurance, abroad

This refers to any insurance provided by a Swedish undertaking through cross-border operations or from a fixed place of business (branch office or agency) abroad:

$$1.50P+0.45E$$

c. Direct credit and suretyship insurance in Sweden or abroad

6.00P–UK

d. Accepted reinsurance

Where reinsurance is ceded by a Swedish undertaking that is a part of the same group as the accepting undertaking, the same formula applies for the maximum amounts as that applicable if the transaction had been retained in the ceding undertaking, i.e. according to items a, b or c. Group refers here to a group as defined in the Swedish Companies Act (2005:551) or the Insurance Business Act (2010:2043).

Otherwise, the following applies.

– Credit reinsurance: 6.00P

– Other insurance: 1.50P+0.45E

Section 5 Regardless of that set forth in section 4, the maximum amount for war risks is calculated as 2P. The maximum amount for nuclear accident insurance is calculated as the higher of the amounts 10P and the highest individual liability amount for own account.

Section 6 Undertakings in a group which have the right to provide or receive group contributions pursuant to Chapter 35 of the Swedish Income Tax Act (1999:1229), may apply the following rule instead of sections 1–5: The sum of the group's contingency reserves may not exceed the sum of the undertakings' maximum contingency reserves, calculated for each individual company according to the rules set forth in sections 1–5.

Section 7 An undertaking that chooses to make contingency reserve provisions pursuant to section 6 requires Finansinspektionen's consent in order to apply the rules in sections 1–5.

Chapter 2. Dissolution of contingency reserves

Section 1 For undertakings that apply the rules set forth in Chapter 1, sections 4–5, the following applies:

Where the contingency reserve at beginning of the reporting period exceeds the maximum amount calculated at the close of the period, pursuant to the rules set forth in Chapter 1, sections 1–5, the excess amount shall be dissolved.

This mandatory dissolution of the contingency reserve is considered as a contribution to cover any loss, i.e. if the profit and loss account's item I.10 "Non-life insurance business' technical profit/loss" after the reversal of item I.6 "Bonuses and discounts" (net of reinsurance) is a negative amount. If the mandatory dissolution is 0, or does not cover such a loss of the insurance operations, further dissolution is allowed. However, such further dissolution may not be larger than the additional amount required to cover the extent of the loss.

Section 2 For a group applying the alternative rule set forth in Chapter 1, section 6, the following applies:

Where the opening contingency reserve for the group undertakings at the beginning of the reporting period exceeds the maximum amount calculated at the close of the period, according to the rules set forth in Chapter 1, section 6, the excess amount shall be dissolved. The dissolved amount may be distributed freely between the companies.

This mandatory dissolution of the contingency reserve is considered as a contribution to cover any losses, i.e. a negative amount (loss) for the technical earnings of the collective insurance operations. Where the mandatory dissolution is 0, or does not cover such a loss of the collective insurance operations, further dissolution is allowed. However, such further dissolution may not be larger than the additional amount required to cover the extent of the loss. Such a dissolved amount may also be distributed freely between the companies.

Each undertaking shall report its share of the dissolved contingency reserve under item III.11 Appropriations.

Chapter 3. Exemptions from the rules regarding contingency reserves

Section 1 The stipulations of Chapters 1–2 are applicable for undertakings operating under normal circumstances and with a normal portfolio.

However, Finansinspektionen may grant exemptions from these rules, if there are specific grounds.

General guidelines

Examples of situations where exemptions to the rules may be granted are if the portfolio includes:

- Pre-paid, multi-year insurance policies or classes of insurance with a very irregular claims pattern, such as “Excess of Loss” reinsurance,
- Policies deriving from collective bargaining agreements between labour market parties, or
- Policies dependent on foreign legislation.

An additional example is where the company applies internationally approved accounting standards and this has an impact on the rules for the calculation of the contingency reserve and withdrawals from it.

Section 2 Where extraordinary circumstances exist, Finansinspektionen may decide to grant an exemption from the principle set forth in Chapter 2, which states that withdrawals from the contingency reserve may only be made to cover losses, in item I.10 “Non-life insurance business' technical profit/loss”, corrected as in Chapter 2.

General guidelines

One example is when the year's loss of an insurance undertaking after a maximum withdrawal from the contingency reserves pursuant to Chapter 2 is so large that the shareholders' equity is less than half of the registered share capital.

Another case is when large claims payments cause considerable losses in the financing operations, by, for example, assets having to be sold at an inopportune point in time at a value substantially below the book value.

These regulations and general guidelines shall enter into force on 1 May 2011, whereupon Finansinspektionen's regulations and general guidelines (FFFS 2002:2) governing non-life insurance companies' calculation of contingency reserves shall be repealed.

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