

Finansinspektionen's Regulatory Code

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Finansinspektionen's regulations regarding life insurance undertakings' and occupational pension undertakings' calculation of contingency reserves;

FFFS 2021:4

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decided on 22 June 2021.

Finansinspektionen prescribes the following pursuant to the Authorisation for Issuance of Regulations on Contingency Reserves in Insurance Undertakings and Occupational Pension Undertakings by Finansinspektionen Ordinance (2000:1127).

Chapter 1 Scope

Section 1 These regulations apply to

1. life insurance undertakings pursuant to Chapter 1, section 4 of the Insurance Business Act (2010:2043), and
2. occupational pension undertakings pursuant to Chapter 1, section 3 of the Occupational Pension Undertakings Act (2019:742).

Chapter 2 Provisions to the contingency reserve

Section 1 A life insurance undertaking or an occupational pension undertaking as per the balance sheet date may not report its contingency reserve at an amount that exceeds what is set forth in sections 2–4.

Section 2 The maximum contingency reserve in an undertaking is the sum of the maximum amounts for each line of insurance as set out in section 4.

The undertaking may only make a provision to a contingency reserve for such insurance that falls under the line of insurance set out in section 4.

Section 3 The maximum provision amount (the maximum amount) for a line of insurance set out in section 4 shall be calculated as shares of premium income and provisions for outstanding claims, in both cases for own account.

Section 4 An undertaking, when determining the maximum amount for a line of insurance, shall apply the following formulas.

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

Insurance regarding:

- health insurance, premium waiver insurance and accident insurance
 $0.40P+0.25O$

- group life and occupational group life insurance
0.40P+0.00O

Chapter 3. Reversal of the contingency reserves

Section 1 Where the contingency reserve (C) at the beginning of the accounting period exceeds the maximum amount (M) calculated in accordance with Chapter 2 at the end of the period, the excess amount (EA = C-M) shall be reversed.

A reversal pursuant to the first paragraph is equal to a contribution to cover a potential loss (L). Where the reversal does not cover the loss (F), an additional voluntary reversal (R) is allowed. However, the sum of the reversals (EA + R) may not exceed the loss (L).

Section 2 In a life insurance undertaking, a loss (L) as per section 1 refers to the following:

1. In non-life insurance business, when income statement item I.10 “Technical result of a non-life insurance business” after the write-back of item I.6 “Bonuses and rebates” (net of reinsurance) is negative.

2. In life insurance business, when the sum of the following items in the income statement is negative:

- a) II.1 “Written premiums (after ceded reinsurance)”,
- b) II.4 “Other technical income”,
- c) II.5 “Claims incurred (after ceded reinsurance)”,
- d) II.6.a “Change in other technical provisions (after ceded reinsurance) – Life insurance provision” and II.6.c “Change in other technical provisions (after ceded reinsurance) – Other technical provisions”,
- f) II.8 “Operating expenses”, and
- g) II.12 “Other technical expenses”.

Section 3 In an occupational pension undertaking, a loss as per section 1 in life insurance business refers to when the sum of the following items in the income statement is negative:

- a) II.1 a and b “Written premiums (after ceded reinsurance)” and, where applicable, II.1.c “Change in Provision for unearned premiums and unexpired risks (after ceded reinsurance)”,
- b) II.4 “Other technical income”,
- c) II.5 “Claims incurred (after ceded reinsurance)”,
- d) II.6.a “Change in other technical provisions (after ceded reinsurance) – Life insurance provision” and II.6.c “Change in other technical provisions (after ceded reinsurance) – Other technical provisions”,
- e) II.8 “Operating expenses”, and
- f) II.12 “Other technical expenses”.

Chapter 4 Special provisions regarding the contingency reserve

Section 1 Finansinspektionen may decide on exemptions from Chapter 2 in the presence of special circumstances or from Chapter 3, section 1, second paragraph in the presence of exceptional circumstances.

Section 2 If a life insurance undertaking does not fulfil the solvency capital requirement set out in Chapter 8 of the Insurance Business Act (2010:2043), the undertaking may reverse all or part of the contingency reserve to cover the shortfall.

The undertaking shall notify Finansinspektionen before a reversal of the contingency reserve in accordance with the first paragraph.

1. These regulations shall enter into force on 06 July 2021 and apply to financial years commencing on 1 January 2021 or later.

2. An occupational pension undertaking that was previously a non-life insurance undertaking pursuant to the Insurance Business Act (2010:2043) and that has made provisions to the contingency reserve in accordance with Finansinspektionen's regulations and general guidelines (FFFS 2013:8) regarding standard regulations for non-life insurance undertakings' calculation of contingency reserves may reduce the contingency reserve through annual write-offs so that it reaches the amount set out in Chapter 2, section 2, first paragraph, no later than three years after the conversion.

ERIK THEDÉEN

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