

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 2013:8

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decided on 25 June 2013.

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

Chapter 1 Scope

Section 1 These regulations and general guidelines apply to non-life insurance undertakings that conduct non-life insurance business in accordance with the Insurance Business Act (2010:2043).

Chapter 2. Provisions to the contingency reserve

Section 1 The balance sheet entry for a non-life insurance undertaking's contingency reserve may not exceed the amounts stated in sections 2–5.

No allocation of capital to contingency reserves may be made for known outstanding claims concerning annuities in sickness insurance, life annuities or for insurances where the premium has been determined for a term exceeding ten years. However, contingency reserve provisions may be made for sickness and life annuities with respect to unknown claims.

Section 2 A non-life insurance 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. 100 basic amounts in accordance with Chapter 2, section 7 of the Social Insurance Code (2010:110), or
3. three times the highest actual retention for an individual risk.

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

General guidelines

Point 3 of the first paragraph should be interpreted as the retention that applies in the undertaking's reinsurance contracts for individual risks. It should not be interpreted as, for example, a maximum claims cost according

to any stop-loss agreements, i.e. reinsurance where the claim is normally due to the total damages for a portfolio if damages fall below a certain level in accordance with the reinsurance contract over the course of one year. In its calculation, the undertakings should disregard the (expected) number of reinstatements, i.e. additional premiums that the reinsurance provider may require after a damage to maintain continued reinsurance protection.

Section 3 A non-life insurance undertaking shall calculate the maximum amount for a particular class of insurance, pursuant to section 4, as a share of premium income and provisions for outstanding claims, in both cases for own account.

Section 4 To determine the maximum amount for a class of insurance, the following formulas 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:	$0.10P+0.20E$
– Worker's compensation insurance:	$0.00P+0.45E$
– Home insurance:	$0.50P+0.25E$
– Commercial property and casualty insurance:	$0.50P+0.20E$
– Motor vehicle insurance:	$0.75P+0.40E$
– Third party motor insurance:	$0.25P+0.15E$
– Marine insurance:	$2.00P+0.20E$
– Aviation insurance:	$2.00P+0.15E$
– Transport insurance:	$0.50P+0.40E$
– Redundancy-pay insurance:	$0.30P+0.15E$
– Hail damage insurance:	$1.20P+0.15E$
– Livestock and domestic animal insurance:	$0.50P+1.00E$
– Unemployment insurance:	$3.00P+0.00E$

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

Direct insurance provided by a Swedish non-life insurance 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

$$6.00P+0.00E-UK$$

d. Accepted reinsurance

Where reinsurance is ceded by a Swedish insurance undertaking that is a part of the same group as the accepting non-life insurance 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), the Economic Associations Act (1987:667) or the Insurance Business Act (2010:2043).

Otherwise, the following applies:

– Credit reinsurance: $6.00P+0.00E$

– 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 $2P+0.00E$. The maximum amount for *nuclear accident insurance* is calculated as the higher of the amounts $10P+0.00E$ 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 undertaking 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 shall receive Finansinspektionen's consent in order to apply the rules in sections 1–5.

Chapter 3. Withdrawal and dissolution of the contingency reserves

Section 1 For companies that comply with the rules set forth in Chapter 2, sections 4–5, the following applies:

Where the contingency reserve (S) at the beginning of the accounting period exceeds the maximum amount (M) calculated at the close of the period, pursuant to the rules set forth in Chapter 2, sections 1–5, the excess amount ($\ddot{O} = S-M$) shall be dissolved.

This compulsory dissolution (\ddot{O}) of the contingency reserve (S) is considered to be a contribution to cover any possible losses (F), i.e. if the profit & loss statement's

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 a negative amount (F).

Where the compulsory dissolution (\ddot{O}) is 0, or does not cover the losses (F) of the insurance activities, additional dissolutions (U) are allowed. However, the sum of the dissolutions ($\ddot{O} + U$) may not exceed the losses (F).

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

Where the total contingency reserve for the group’s non-life insurance undertakings (S^K) at the beginning of the accounting period exceeds the maximum amount (M^K) calculated at the close of the period, the excess amount ($\ddot{O}^K = S^K - M^K$) shall be dissolved. The dissolved amount (\ddot{O}^K) may be distributed freely between the group’s non-life insurance undertakings.

This compulsory dissolution (\ddot{O}^K) of the contingency reserve (S^K) is considered to be a contribution to cover any possible losses (F^K), i.e. if the consolidated profit & loss statement’s 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 a negative amount (F^K).

Where the compulsory dissolution (\ddot{O}^K) is 0, or does not cover the losses (F^K) of the insurance activities, additional dissolutions (U^K) are allowed. However, the sum of the dissolutions ($\ddot{O}^K + U^K$) may not exceed the losses (F^K). Such a dissolution may also be distributed freely between the group’s non-life insurance undertakings.

Section 3 A non-life insurance undertaking shall report the dissolution of the contingency reserves under item III.11 *Appropriations*.

Chapter 4 Special provisions regarding the contingency reserves

Section 1 The rules set forth in Chapters 2–3 are intended for non-life insurance undertakings that are operating under normal circumstances and have a portfolio of a normal character.

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:

- insurance policies for more than one year or classes of insurance with a very irregular loss pattern, such as “Excess of Loss” reinsurance, i.e. reinsurance where the claim is based on the part of the damages that exceeds a certain level stated in the reinsurance contract,
- policies deriving from collective bargaining agreements between labour market parties, or
- policies dependent on foreign legislation.

Section 2 Where extraordinary circumstances exist, Finansinspektionen may decide to grant an exemption from the principle set forth in Chapter 3, 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”.

General guidelines

One example is when the year’s loss of a non-life insurance undertaking after a maximum withdrawal from the contingency reserves pursuant to Chapter 3, section 1 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 carrying amount.

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1. These regulations shall enter into force on 1 August 2013 and apply to financial years commencing on 1 January 2013 or later.
 2. Upon entry into force of these regulations, Finansinspektionen’s regulations and general guidelines (FFFS 2011:9) regarding standard regulations for non-life insurance undertakings’ calculation of contingency reserves shall be repealed.
 3. A non-life insurance undertaking may apply the old regulation for financial years ending no later than 31 December 2013 on the condition that the undertaking informs Finansinspektionen in writing.

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