

*N.B. This is a consolidated version and therefore a compilation. The printed Swedish regulation is the official, valid version. A consolidated version is a full-text version in which all amendments have been inserted into the original regulation.*



# Finansinspektionen's Regulatory Code

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**FFFS 2013:8**

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

Consolidated electronic issue

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Please note that only the printed edition applies for the application of the law

Decided: 25/06/2013

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Amendments: FFFS 2015:19, FFFS 2015:23

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### **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).

The regulations shall also be applied to non-life insurance business that foreign insurers conduct in a branch in Sweden and that is covered by Chapter 39, sections 6 and 8 of the Income Tax Act (1999:1229). (*FFFS 2015:19*)

### **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, or

2. 100 basic amounts in accordance with Chapter 2, section 7 of the Social Insurance Code (2010:110).

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. (FFFS 2015:23)

**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** /Will be repealed: 2020-01-01/ **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 4 /Enters into force: 2020-01-01/ 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*.

*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 abroad, excluding credit insurance and suretyship insurance*

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*

$$6.00P+0.00E$$

*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:  $1.50P+0.45E$  (FFFS 2015:19)

**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** Repealed through (FFFS 2015:23).

**Section 7** Repealed through (FFFS 2015:23).

### 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** Repealed through (FFFS 2015:23).

**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 reserve

**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.

**Section 3** If a non-life insurance undertaking does not fulfil the solvency capital requirement in accordance with Chapter 8 of the Insurance Business Act (2010:2043), the undertaking may utilise all or part of the contingency reserve to cover the shortfall.

A non-life insurance undertaking shall notify Finansinspektionen before utilising the contingency reserve in accordance with the first paragraph. (*FFFS 2015:19*)

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### **Entry into force and transition provisions**

FFFS 2013:8

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.

FFFS 2015:19

These regulations enter into force on 1 January 2020 in respect of Chapter 2, section 4 and on 1 January 2016 for the remainder of the regulations and apply to the financial year that commences on each respective date of entry or later.

FFFS 2015:23

1. These regulations shall enter into force on 01 January 2016 and apply to financial years commencing on 01 January 2016 or later.
2. A non-life insurance company which at the entry into force of these regulations applies the provision set out in Chapter 2, section 2, first paragraph, point 3 of the older wording may make write-downs to the contingency reserve such that the reserve no later than 31 December 2019 amounts to an amount pursuant to Chapter 2, section 2, first paragraph, points 1 and 2 in accordance with the following. The contingency reserve as per 31 December 2017 may correspond to a maximum of twice the highest actual retention for an individual risk and as per 31 December 2018 to a maximum of the highest actual retention for an individual risk.
3. A non-life insurance undertaking that has made provisions to the contingency reserve pursuant to Chapter 2, section 6 of the older wording may reduce the contingency reserve through annual write-downs so that no later than 31 December 2019 it amounts to an amount pursuant to Chapter 2, section 2, first paragraph, points 1 and 2.