

# Finansinspektionen's Regulatory Code

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**FFFS 2002:2**

## **Finansinspektionen's Regulations and General Guidelines governing standard regulations for non-life insurance companies' calculation of contingency reserves;**

Consolidated electronic edition

Last updated: 28 February 2007

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

Decided:	18 February 2007
Authorisation:	Issuing <sup>1</sup> Regulation (2000:1127) with authorisation for Finansinspektionen to issue implementation regulations regarding contingency reserves in non-life insurance companies. Now in force.
Entry into force:	1 April 2002
Celex:	-
Revisions:	FFFS 2005:35, 2006:15

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### **Chapter 1. Provisions for the contingency reserve**

**Section 1** The balance sheet entry for the contingency reserve may not exceed the amounts stated in sections 2–7.

No allocation of capital to contingency provisions may be made for 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. (*FFFS 2005:35*)

**Section 2** A company's maximum contingency reserve may not exceed 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 respectively, or
3. three times the highest actual retention for an individual risk.

The classes of insurance correspond essentially with those that apply in a profit/loss analysis according to Finansinspektionen's Regulations and General Guidelines governing the annual accounts at insurance companies. For insurances that do not fall within the stated classes of insurance, no underlying contingency reserve provisions may be included. (*FFFS 2005:35*)

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**Section 3** The maximum amount for a particular class of insurance is calculated as a share of premium income and provisions for outstanding claims, in both cases net and for each individual class of insurance. Provisions for known outstanding claims concerning sickness and lifetime annuities pursuant to section 1 shall not be included in the calculations.

**Section 4** To determine the maximum amount, the following formulas shall apply. Finansinspektionen has established these based on empirical studies as well as on theoretical considerations.

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 7, section 1 of the Insurance Business Act (1982:713). 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:

– health/sickness and accident insurance:	$0.10P+0.15E$
– employees’ no-fault liability insurance:	$0.00P+0.45E$
– homeowner’s comprehensive insurance:	$0.80P+0.15E$
– business and real estate insurance:	$0.50P+0.15E$
– motor vehicle insurance:	$1.00P+0.15E$
– motor vehicle third-party insurance:	$0.15P+0.15E$
– marine insurance:	$1.75P+0.15E$
– aviation insurance:	$2.15P+0.15E$
– transport insurance:	$0.45P+0.15E$
– severance pay insurance:	$0.30P+0.15E$
– hail damage insurance:	$1.20P+0.15E$
– livestock and domestic animals 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 company via cross-border activities or from a fixed place of business (branch office or agency) abroad:

$$1.50P+0.45E$$

c. *Credit insurance and suretyship insurance in Sweden or abroad*

6.00P–UK

d. *Reinsurance accepted*

Where reinsurance is ceded by a Swedish company that is a part of the same group of companies as the accepting company, the same formula shall be applied for the maximum amounts as would have applied if the insurance policy had been retained in the ceding company, i.e. according to items a, b or c. *Group of companies* refer here to a group of companies as defined in the Companies Act (2005:551) or the Insurance Business Act (1982:713).

Otherwise, the following shall apply:

- credit reinsurance:  $6.00P+0.00E$
- other insurance:  $1.50P+0.45E$   
(FFFS 2005:35, FFFS 2006:15)

**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 amount  $10P$  and the highest individual liability amount for own account.

**Section 6** Companies belonging to a group of companies, which have the right to make inter-company profit/loss transfers pursuant to Chapter 35 of the Income Tax Act (1999:1229), may apply the following rule instead of sections 1–5: The total sum of the group’s contingency reserves may not exceed an amount equivalent to the total of the companies’ maximum contingency reserves, calculated for each individual company according to the rules set forth in sections 1–5. (FFFS 2005:35)

**Section 7** Companies that have chosen to make contingency reserve provisions pursuant to section 6 require Finansinspektionen’s consent in order to apply the rules in sections 1–5. (FFFS 2005:35)

**Section 8** *has been repealed by (FFFS 2006:15).*

## Chapter 2 . Withdrawal and dissolution of the contingency reserves

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

Where the company’s contingency reserve at beginning of the accounting 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 compulsory dissolution of the contingency reserves is considered as a contribution to cover any possible losses, 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. Where the mandatory distribution is 0, or does not cover the losses of the insurance activities, additional distributions are allowed. However, such distributions must not exceed the losses to be covered. (FFFS 2005:35, FFFS 2006:15).

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

Where the contingency reserves for the group of companies at the beginning of the reporting period exceed 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 distributed. The distributed amount may be distributed between the companies without restrictions.

This mandatory distribution of the contingency reserves is considered as a contribution in order to cover potential losses, i.e. a negative amount (loss) for the underwriting profits for the insurance activities collectively as defined by section 1. Where the mandatory distribution is 0, or does not cover the losses of all of the insurance activities collectively, additional distributions are allowed. However, such distributions must not exceed the losses to be covered. The distributed amount may also be distributed between the companies without restrictions.

Each company shall report its share of the distributed contingency reserves under item III.11 *Appropriations*. (FFFS 2005:35)

### **Chapter 3. Exemptions from the rules regarding contingency reserves**

**Section 1** The rules set forth in Chapters 1–2 are intended for companies operating under normal circumstances and have a portfolio of a normal character.

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

#### *General Guidelines*

Examples of situations where exemptions to the rules may be granted:

- insurance policies for more than one year or classes of insurance with a very irregular loss pattern, such as “Excess of Loss” reinsurance,
- insurances deriving from collective agreements between labour market parties, or
- insurances dependent on foreign legislation.

An additional example is where an insurance company applies internationally approved accounting standards and this has an impact on the rules for the calculation of the contingency reserve and any withdrawals from it. (FFFS 2005:35)

**Section 2** Where extraordinary circumstances exist, Finansinspektionen may grant an exception 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 “Technical result of a non-life insurance business”, corrected as in Chapter 2.

#### *General Guidelines*

An example of such extraordinary circumstances mentioned in section 2 is when the year’s loss in an insurance company after a maximum withdrawal from the contingency reserves pursuant to Chapter 2 is so large that the shareholders’ equity is less than one-third of the registered share capital.

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

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These Regulations and General Guidelines shall enter into force on 1 April 2002, whereupon Finansinspektionen's Regulations and General Guidelines (FFFS 1999:19) governing standard regulations for non-life insurance companies' financial reporting of contingency reserves shall be repealed.

In addition to that set out in Chapter 1, section 1, second paragraph, prior to 31 December 2001, provisions for contingency reserves must not be made for such activities for which there are principles or a separate plan for premium reserves. (FFFS 2002:2)

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These regulations shall enter into force on 31 December 2005. (FFFS 2005:35)

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These regulations shall enter into force on 31 December 2006. (FFFS 2006:15)