Finansinspektionen’s Regulatory Code

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Finansinspektionen's regulations and general guidelines regarding group available and required solvency margins for insurance undertakings belonging to a group;

decided on 17 March 2011.

Finansinspektionen prescribes[1] the following pursuant to Chapter 7, section 2 of the Insurance Business Ordinance (2011:257) and provides general guidelines.

Scope

Section 1 These regulations apply to an insurance undertaking belonging to the following insurance groups:

Insurance Group 1:
– when the insurance undertaking has a subsidiary or associated insurance undertaking, or
– when the insurance undertaking and another insurance undertaking are managed on a unified basis.

Insurance Group 2:
– when the insurance undertaking is a subsidiary to an insurance holding company, or
– when the insurance undertaking is a subsidiary to a foreign insurance undertaking domiciled outside the EEA.

The regulations and general guidelines regarding associated undertakings shall also apply to undertakings which are not subsidiary or associated undertakings if the holding directly or indirectly totals 20 per cent or more of the votes or capital.

The rules for calculation in accordance with the deduction and aggregation method are set out in sections 4-9, and the rules for the accounting consolidation-based method in sections 10-12.

General guidelines

The accounting consolidation-based method may be used instead of the deduction and aggregation method where sufficient grounds exist. This assessment should be based on the supervisory authority's need for information for purposes of control. The accounting consolidation-based

[1] Council Directive 98/78/EC of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group (OJ L 330, 5.12.1998 pp. 1-12, Celex 31998L0078).

method should therefore present an equally accurate depiction of the adjusted position as if the deduction and aggregation method had been used. In addition, the accounting consolidation-based method may only be used if group accounts have been prepared.

Section 2 The parent insurance undertaking (Insurance Group 1) and the subsidiary insurance undertaking (Insurance Group 2) shall, on an annual basis unless granted an exemption, submit a report of the group available and required solvency margins. The report shall be submitted on the form in *Appendix 1*, for which instructions are provided in *Appendix 2*. Finansinspektionen shall have received the report no later than 15 May.

General guidelines

Exemptions to the obligation to prepare and submit information to Finansinspektionen are set out in Chapter 9, section 7 of the Insurance Business Act (2010:2043). An exemption may be granted to an insurance undertaking if a group solvency report is prepared by another undertaking in the group and the insurance undertaking is included in this report.

Otherwise, the primary rule is that group solvency reports should be prepared by each insurance undertaking which owns another insurance undertaking regardless whether successive ownership means that the reports are prepared several times for the same group. The same applies to each insurance undertaking owned by an insurance holding company or an insurance undertaking domiciled outside the EEA.

Subsidiaries and associated companies

Section 3 When calculating group available and required solvency margins, an insurance undertaking's directly or indirectly owned subsidiary and associated insurance undertakings shall be taken into account proportionately based on the insurance undertaking's share of the subscribed capital. However, this does not apply if a subsidiary is reporting a solvency deficit. In such a case, the deficit shall be treated as if the subsidiary were wholly-owned. However, exemptions may be granted and the calculation may be proportional if the parent undertaking can demonstrate that its responsibility strictly and unambiguously is limited to the share of the capital.

When calculating group available and required solvency margins, directly and indirectly owned subsidiary and associated undertakings that are insurance holding companies or foreign insurance undertakings domiciled in or outside the EEA shall be treated equal to an insurance undertaking.

General guidelines

Pursuant to Chapter 9, section 8 of the Insurance Business Act, undertakings may be exempted in full or in part from the undertakings included in the calculation as set out in section 3, for example when the undertaking is located in a country outside the EEA and there are legal impediments to the transfer of necessary information. In this case, the provisions set out in section 13 regarding insufficient information apply.

Deduction and aggregation method

Section 4 The adjusted financial position of Insurance Group 1 is determined using the deduction and aggregation method by deducting the group required solvency margin calculated in accordance with section 9 from the group available solvency margin calculated in accordance with sections 5–8.

The adjusted financial position of Insurance Group 2 is calculated in the same manner as for Insurance Group 1. In this context, the parent insurance holding company or the foreign insurance undertaking domiciled outside the EEA shall subsequently be treated as if it were a parent insurance undertaking.

Calculating the group available solvency margin

Section 5 The group available solvency margin consists of the sum of the available solvency margin in the parent insurance undertaking and its share of the available solvency margins in directly and indirectly owned subsidiary and associated insurance undertakings. Sections 6-8 shall be taken into account during these calculations and the appropriate deductions made.

When calculating the group available solvency margin, Chapter 7, sections 2–4, section 17, second paragraph, first sentence and section 18, second paragraph, first sentence of the Insurance Business Act and, where applicable, Finansinspektionen's regulations regarding Swedish insurance undertakings' obligation to submit a solvency declaration shall apply.

Section 6 Deductions shall be applied to the group available solvency margin in accordance with section 5 for the value of assets held by the parent insurance undertaking or its subsidiary and associated insurance undertakings which refer to the funding of items that may be included in the available solvency margin for any other insurance undertakings in the group.

General guidelines

Deductions should be made e.g. for shares and subordinated loans in associated and subsidiary insurance undertakings that are held or were issued by the parent insurance undertaking.

Section 7 Without prejudice to the provisions set out in section 6, the following items (1-3) in subsidiary and associated insurance undertakings may be included in the group available solvency margin in accordance with section 5 on the condition that they may be included in the available solvency margin for each subsidiary or associated insurance undertaking:

1. subscribed but unpaid share capital and guarantee capital,
2. profit reserves and future profits arising in life insurance undertakings,
3. items that in practice cannot be made available to the parent insurance undertaking.

However, the sum of points 1–3 may not exceed the required solvency margin of the subsidiary and associated insurance undertaking.

Subscribed but unpaid capital, as referred to in point 1, and such capital in the parent insurance undertaking shall be deducted from the group available solvency margin if subscribed by a subsidiary or associated insurance undertaking.

General guidelines

This provision refers to items that may be included in the available solvency margin for the individual insurance undertakings but are not distributable and therefore in practice cannot be made available for the group as a whole. As a result, these items may only be used to cover the required solvency margin in the undertaking in which they originated and any surplus should be calculated as zero in group calculations.

The first paragraph, point 2 refers to items that only after application to Finansinspektionen may be included in the available solvency margin. Specifically, future profits from life insurance undertakings reported as C-items in the form for the declaration of available and required solvency margins for Swedish life insurance undertakings only conducting life insurance business. Examples of items in the first paragraph, point 3 include surpluses that cannot be distributed as profit to shareholders.

Section 8 Deductions shall be applied to the total calculated in accordance with section 5 for the following items, taking into account all undertakings in the group:

– Items in the insurance undertaking's available solvency margin that originated from reciprocal financing between this undertaking and another undertaking in the group,
– Items in a subsidiary or associated insurance undertaking's available solvency margin that originated from reciprocal financing between the subsidiary or associated insurance undertaking and another undertaking in the group.

General guidelines

This provision refers to a larger group of undertakings than section 6. The purpose of section 6 is to eliminate double utilisation of items that may be included in the available solvency margin and therefore only affects undertakings for which the available solvency margin shall be calculated in accordance with this provision. Deductions for items as set out in section 8 shall, on the contrary, be made for all undertakings in which reciprocal financing occurs, for example in the event of cross-ownership or intra-group subordinated loans between parent undertakings and subsidiaries and when undertakings are simultaneously both lenders and borrowers.

Calculating group required solvency margins

Section 9 The group required solvency margin is calculated as the sum of

– the required solvency margin for the parent insurance undertaking, and
– the insurance undertaking's share of the required solvency margin of its subsidiary and associated insurance undertakings.

The required solvency margin shall be calculated in accordance with the rules for non-life insurance and life insurance, respectively, as set out in Chapter 7, sections 7–16 of the Insurance Business Act.

When reporting the group required solvency margin, it should be taken into account that the rules set out in the Insurance Business Act shall apply to both the valuation of technical provisions and assessment of what constitutes insurance contract. This applies regardless of which accounting rules the institution applies.

Insurance holding companies are not subject to a solvency requirement when calculating the group required solvency margin.

Accounting consolidation-based method

Section 10 The adjusted financial position for Insurance Group 1 using the accounting consolidation-based method is based on information in the group accounts prepared by the insurance undertaking. The financial position is determined by deducting the group required solvency margin pursuant to section 12 from the group available solvency margin pursuant to section 11.

The adjusted financial position of Insurance Group 2 is calculated in the same manner as for Insurance Group 1. In this context, the parent insurance holding company or the foreign insurance undertaking domiciled outside the EEA shall be treated as if it were a parent insurance undertaking in the calculation.

General guidelines

The accounting consolidation-based method is based on information from the group accounts and should therefore only be used for undertakings included in such accounts. This means that there may be cause for an insurance group to make multiple calculations, one of which uses the accounting consolidation-based method for the undertakings included in the group accounts and to which a supplement is added for e.g. life insurance undertakings with profit distribution restrictions that are included in the insurance group.

Calculating the group available solvency margin

Section 11 The group available solvency margin is determined by totalling the items in the group accounts that can be included in the available solvency margin of each insurance undertaking. Hereto apply the provisions set out in section 5, second paragraph.

Where the accounting consolidation-based method has not already taken into account the provisions set out in sections 6-8, these principles shall be applied and, where applicable, deductions made.

Calculating the group required solvency margin

Section 12 The group required solvency margin is determined by either

1. the sum of the parent insurance undertaking's required solvency margin and its share of the required solvency margin for the insurance undertaking's associated or subsidiary insurance undertakings, or
2. a new required solvency margin calculated using the information in the group accounts.

When calculating in accordance with the first paragraph, point 1, the insurance undertaking's share of the required solvency margin of its associated or subsidiary insurance undertakings shall correspond to the percentages used in the preparation of the group accounts.

When calculating the group required solvency margin, the provisions in section 9, second and third paragraphs shall apply.

Insufficient information

Section 13 Where there is insufficient information for calculating the adjusted financial position for a subsidiary insurance undertaking domiciled outside the EEA, the undertaking's book value shall be deducted from the items that may be included in the adjusted available solvency margin. In such cases, unrealised profits associated with the subsidiary undertaking may not be included, either.

Section 14 Finansinspektionen decides on exemptions from these regulations where special grounds exist.

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1. These regulations and general guidelines shall enter into force on 1 June 2011 and apply to information relating to financial years commencing after 31 December 2010.

2. Upon entry into force of these regulations, Finansinspektionen's regulations and general guidelines (FFFS 2002:4) regarding group own funds and group required solvency margins for insurance undertakings and mutual benefit societies belonging to a group shall be repealed.

3. With regard to mutual benefit societies which pursuant to section 7 of the Act (2010:2044) on the Implementation of the Insurance Business Act (2010:2043) may continue to conduct business or are in liquidation, the old regulations shall apply.

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