Finansinspektionen's Regulatory Code

Publisher: Finansinspektionen, Sweden, www.fi.se
ISSN 1102-7460

FFFS 2012:2
Published on
26 April 2012

Regulations
amending Finansinspektionen's regulations and general guidelines (FFFS 2011:39) regarding information about insurance and occupational pensions;

decided on 20 March 2012.

Finansinspektionen prescribes[1] pursuant to Chapter 7, sections 2, 5 and 6 of the Insurance Business Ordinance (2011:257) with regard to Finansinspektionen's regulations and general guidelines (FFFS 2011:39) regarding information about insurance and occupational pensions that Chapter 1, sections 1 and 2, Chapter 2, section 2, Appendix 2 and Appendix 4 shall have the following wording.

Chapter 1

Section 1 These regulations and general guidelines contain provisions regarding

– information that shall be provided to any party invited to take out insurance,
– information that shall be provided to a policyholder and any party entitled to payment during the term of the insurance contract,
– information that shall be provided to any party entitled to payment during the payment period,
– information regarding occupational pensions that shall be provided to parties entitled to payment and parties entitled to information,
– key investor information documents for private individual life insurance, and
— calculation of the geometric mean.

Section 2 These regulations apply to

1. insurance undertakings and foreign insurers with operations in Sweden that provide direct insurance,
2. pension funds as referred to in section 9a, first paragraph of the Safeguarding of Pension Commitments, etc. Act (1967:531), and
3. foreign institutions for occupational retirement provision as referred to in Chapter 1, section 5, point 3 of the Act (1998:293) on Undertakings of Foreign Insurers and Institutions for Occupational Retirement Provision in Sweden.

[1] Cf. Council Directive 92/49/EEC of 18 June 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending Directives 73/239/EEC and 88/357/EEC (EGT no. L 228, 11.8.1992, p. 1, Celex 392L0049), Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance (EGT L 345, 19.12.2002, p. 1, Celex 32002L0083) and Directive 2003/41/EC of the European Parliament and the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (EGT L 235, 23.09.2003, p. 10, Celex 32003L0041).

A pension fund and a foreign institution for occupational retirement provision shall apply only Chapter 2, section 1 and *Appendix 1*.

For sickness and accident insurance provided as a supplement to a life insurance, *Appendix 2* is not be applied.

Chapter 2

Section 2 The information shall be designed such that it facilitates the decisions that a party intending to take out an insurance or a policyholder may need to make.

General guidelines

It should be simple to gain an overview of the insurance's most important characteristics and limitations.

For savings-type pension insurance and capital insurance, the information should clearly state the extent to which the level of the pension amount, insurance amount and any survivor benefits is guaranteed.

For private individual life insurance products characterised by saving, the most important pre-purchase information should be provided in a key investor information document. The key investor information document should follow the standard layout, using the headings set out in *Appendix 3*, and in general be designed in such a manner as to make it easy for a consumer to compare similar products. If the average yield is calculated as the geometric mean, the comments about the method set out in *Appendix 4* should be taken into account.

These regulations shall enter into force on 1 July 2012.

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Appendix 2

Information about life insurance and occupational pension insurance

The appendix is divided into the following sections:

A. Information before an insurance contract is concluded
B. Information about the insurance's value in conjunction with a transfer
C. Information during the insurance term but prior to payment
D. Information during the payment period
E. Additional information concerning occupational pension insurance

A. Information before an insurance contract is concluded

Before an insurance contract is concluded, an insurance undertaking shall provide information pursuant to points 1–20 to the party that has been offered the insurance.

With regard to life insurances only applicable upon death and concluded for a period of not more than five years, or for a premium calculated and determined for not more than five years at a time, however, points 10–17 do not apply.

With regard to unit-linked insurances or depository insurances, points 11–17 do not apply. If, pursuant to such an insurance contract, it is possible that insurance capital cannot be paid due to the absence of a party entitled to payment, points 8 and 9 do not apply, either.

Insurance contracts

An insurance undertaking shall provide information that includes:

1. The term of the insurance contract.

2. Where applicable, how the insurance can be surrendered or changed to a paid-up policy, or how its value can be transferred.

3. The principles for how the value of an insurance is decided if it is surrendered or changed to a paid-up policy, and how the transferable amount is determined if the value of the insurance shall be transferred.

4. In what respects and under which circumstances the insurance undertaking can change the terms and conditions of the contract during the insurance term, particularly with regard to benefits, fees and other charges.

5. The policyholder's right to terminate the insurance contract and how this is done.

6. The main features of the tax rules which apply to the insurance.

Premiums

7. The terms and conditions which apply to premium payments.

8. The proportion of the premiums paid that relate to the main benefit and, where applicable, supplementary benefits.

Fees and the distribution of profits

9. The principles for how the insurance undertaking's operational and risk expenses shall be covered and how the profit can be distributed.

10. The principles for how the profits shall be allocated between both policyholders and other parties entitled to payment, and what procedures shall be followed when the insurance capital cannot be paid out due to the absence of a party entitled to payment.

11. The principles for how the profit may be used to cover losses.

12. The factors or conditions on which conditional bonus is dependent.

13. The principles for calculating bonuses added to contractual payments.

14. The insurance undertaking's policy on collective consolidation and for the repossession of bonuses (reallocation) where an insurance contract has the allocated bonus option.

15. Information clearly stating which form of bonus or profit the insurance contract may benefit from.

Financial information concerning the insurance undertaking

16. General information about long-term targets for investments that the insurance undertaking has established with an approximate division into

a) shares and participating interests,
b) properties and mortgages,
c) fixed-interest assets, and
d) other investments.

17. The long-term targets shall be divided into:

a) total assets,
b) the assets covering liabilities for conditional bonuses, and
c) the assets covering liabilities for guaranteed bonuses and other insurance commitments.

For information about the insurance undertaking's historical returns on capital and costs for asset management, industry-wide key figures and measurement methods should be used, if such exist. References to yield history in *Appendix 3*, however, should also be taken into account.

Special information for insurance where the policyholder chooses funds for investing premiums

18. How to change funds and the amount of the fees charged when changing funds.

19. The fees charged by the insurance undertaking to cover any operating expenses and tax, specifying the distribution in terms of

a) deductions from the premium prior to purchase of units,
b) any difference between the purchase and sale price of units, and
c) deductions from the fund's or units' value.

20. A general description of the selection of funds and, upon request by the party being offered the insurance, also information about an individual fund's primary focus.

References to information about funds in *Appendix 3* should also be taken into account.

B. Information about the insurance's value in conjunction with a transfer

When a policyholder wants to transfer the value of the insurance to another insurance undertaking, the information in points a or b shall be provided. This also applies where an employee, who is equivalent to a policyholder, is entitled to transfer the value of an occupational pension insurance and would like to utilise this right.

a) An insurance undertaking *from* which the transfer is made shall provide the following information to the policyholder:

1. Information that the previous insurance contract is terminated and that the transferred value will be placed in a new insurance pursuant to a new contract.

2. Where appropriate, the insurance undertaking shall provide information stating

– that the insurance belongs to a special bonus group since the insurance applies with a transfer option,

– the value that will be transferred, the fees that will be charged and the adjustments that will be made to the existing insurance value,

– that the contractual insurance amount and the current risk cover, including the waiver of premium contained in current insurance contracts, may be changed in the new insurance,

– that, in conjunction with unit-linked insurance, the possibility to choose the investment is changed,

– the date upon which the insurance undertaking’s responsibility terminates.

b) An insurance undertaking *to* which the transfer is made, where applicable, shall provide the following information to the policyholder.

1. The insurance's value broken down into contractual benefits and other. No such breakdown is required where the entire value is deemed as a premium for a commitment.

2. All information which shall be provided before an insurance contract is concluded pursuant to these regulations. This information does not need to be provided if the transfer was already agreed when the insurance contract was concluded.

C. Information during the insurance term but prior to payment

During the term of the insurance contract and up to payment, an insurance undertaking shall provide information to policyholders and parties entitled to payment including the following.

Changes

1. Information referred to in A 1-20 which is of major significance for the application of the contract and which is affected by a decided change in legislation, the insurance terms and conditions, the fund rules, or the insurance undertaking's policy regarding collective consolidation. Where the insurance undertaking makes a decision regarding reallocation of bonuses, information about this decision as well as expected effects of the reallocation shall be provided as soon as possible.

Annual information

On an annual basis, the insurance undertaking shall provide information about premiums paid and fees charged for the past period in accordance with the following:

2. Where appropriate, information about

– guaranteed bonuses that were paid or increased the insurance's value during the period,
– conditional bonuses that were paid or changed the insurance's value during the period,
– the insurance's guaranteed value at the beginning and end of the period, or about the guarantee's design, and
– that payment will begin within the next twelve months.

The information about guaranteed or conditional bonus may be replaced by information about the insurance capital at the beginning and end of the period.

3. Where information is provided about allocated bonus, notification that it is included in the insurance undertaking's risk capital and what this entails.

4. Amendments to the principles applied to the calculation of the amounts payable.

5. The payment amount, including any bonus, which would have been payable on death as per the closing date of the past period in cases where this payment deviates from the value of the insurance.

6. Fees that will be charged to the value in conjunction with any surrender or transfer of the value of the insurance.

7. Other fees charged during the period.

8. Other causes material to the change in the insurance's value during the year, such as

– returns allocated to the insurance or preliminarily distributed,
– fees for taxes the insurance undertaking deducted from the value of the insurance,
– risk premiums deducted by the insurance undertaking, and
– inheritance profit assigned to the insurance or preliminarily distributed,

9. In conjunction with the commencement of periodic payments, that the undertaking has utilised its right to change the terms and conditions of the insurance, for example with regard to fees and assumptions about longevity.

10. A reminder that the insurance may need to be reviewed in certain respects, for example beneficiaries, the need for survivor benefits and the choice of funds before the payment period of a unit-linked insurance contract begins.

D. Information during the payment period

During the payment period, an insurance undertaking shall provide the following information to policyholders and parties entitled to payment:

Changes

1. Information referred to in A 1-20 which is of material significance to the contract and which is affected by a decided change in legislation, the insurance terms and conditions, the fund rules, or the insurance undertaking's policy regarding collective consolidation. Where the insurance undertaking makes a decision regarding reallocation of bonuses, information about this decision as well as expected effects of the reallocation shall be provided as soon as possible.

2. Amendments to the principles or material changes to assumptions used to calculate bonuses added to contractual amounts during the payment period.

Annual information

The insurance undertaking shall annually provide information about the following:

3. Information for the period regarding

– the current amount payable;
– the returns assigned to the insurance or preliminarily distributed,
– fees deducted with regard to taxes,
– other fees that have been deducted, and
– where applicable, information that the benefit payments will cease within the next twelve months.

E. Additional information concerning occupational pension insurance

An insurance undertaking conducting business related to occupational pension insurance shall observe the following when information is provided to members and beneficiaries.

1. Information about the insurance undertaking

Upon request, members and beneficiaries shall receive a copy of the most recent annual report.

2. Information about pension schemes

If the insurance undertaking safeguards more than one pension scheme, the members and beneficiaries shall upon request receive the annual report for the pension scheme they belong to, if such information is available.

In conjunction with changes to the rules of a pension scheme, the members and beneficiaries shall receive relevant information about the change within a reasonable time following the decision to make the change.

Members and beneficiaries shall receive adequate information regarding the benefits they are entitled to and the payment options that apply when pensions or other benefits become due.

Upon request, members and beneficiaries shall receive detailed and comprehensive information about

a) how the pension benefits are determined when the full period of service has been earned with regards to a defined-benefit plan,
b) the size of the pension benefits if employment is terminated, and
c) terms and conditions for the transfer of pension rights if employment is terminated.

3. Information regarding investment guidelines

An insurance undertaking, upon request by members and beneficiaries or their representatives, shall provide information about investment guidelines prepared pursuant to Finansinspektionen's regulations and general guidelines (FFFS 2011:16) regarding investment guidelines and consequence analyses for institutions conducting occupational retirement provision. The information shall include

a) a general description of the assets related to the occupational pension,
b) information regarding yield targets, and
c) information regarding risk levels in assets and commitments as a whole.

Appendix 4

Calculation of the geometric mean

Calculation of the average total yield or bonus interest rate using the geometric approach

The geometric approach is commonly used to calculate funds' average yield over a given period. Under this approach, average yield or accumulation of interest is calculated as an average effective interest rate, i.e. as an average annual interest rate in conjunction with payment in arrears.

In technical terms, the approach can be described with words as follows. The time-weighted mean of the yield or interest rate is calculated based on a time-weighted standard arithmetic mean for corresponding yield or interest rate intensities. The geometric mean is determined then by recalculating the average intensity to a standard effective yield or interest rate.

If the yields or interest rates for which the mean is calculated apply on the basis of the calendar year, the time-weighting is simple and each calendar year is given the same weight. However, if, for example, the bonus interest rates were applied in periods of varying length, expressed in months, they will be time-weighted when calculating the mean. A period of three months is time-weighted at 25 per cent of one year, while a period of twelve months receives a weight of 100 per cent, and so on.

If we assume five calendar year yields T(1), T(2), …, T(5), e.g. 5%, 6%, 10%, 4% and -1%, the corresponding intensities are u(1), u(2), …, u(5). The intensities are defined by u(i) = log (1+T(i)), calculated using a base 10 logarithm. In our example, the intensities are log 1.05, log 1.06, …, log 1.2. Calculate the arithmetic mean u = [u(1)+u(2)+…+u(5)]/5. The geometric mean is then 10u -1. In our example, the arithmetic mean is 4.81 per cent while the geometric mean is 4.74 per cent. It is possible to prove that the geometric mean is never larger than the arithmetic mean and that they are the same if all inputs are the same.

The geometric mean is fair in the sense that an amount invested at the start of the five-year period has the same end value if it accumulates interest or grows:

- year for year with the five stated amounts, or
- year for year with the same amount, namely the geometric mean.

It follows that the accumulation of interest over the five years using the arithmetic mean results in an amount that is too large and misleading.

An example with varying subperiod lengths: Let the yields or interest rates be the same as in the previous example, but assign the subperiods lengths t(1), t(2), …, t(5), e.g. 11, 7, 6, 17 and 19 months (still a total of 60 months or five years). The weighted intensities are then given the time-weighted arithmetic mean u = [11•u(1) + 7•u(2) + … + 19•u(5)]/60. The geometric mean is, as previously, 10^u -1. The weighted geometric mean is 3.38 per cent while the corresponding weighted arithmetic mean is 3.43 per cent.

To calculate the geometric mean, *G,* when yield or interest rates are expressed as a per cent, we can use the following formulas:

$$G = 100(10^{UA} - 1)$$

$$UA = \frac{1}{L}\sum_{k=1}^{n} d_k \, {}^{10}\log(1 + \frac{r_k}{100})$$

$$L = \sum_{k=1}^{n} d_k$$

d_k = length of the subperiod k

r_k = the yield or interest rate for the subperiod, k, expressed as effective yield or interest rate, in per cent.

The formula can also be written without logarithms:

$$G = 100\left(\left(\prod_{k=1}^{n}\left(1 + \frac{r_k}{100}\right)^{d_k}\right)^{\frac{1}{L}} - 1\right) = 100\left(\left(\left(1 + \frac{r_1}{100}\right)^{d_1} \cdots \left(1 + \frac{r_n}{100}\right)^{d_n}\right)^{\frac{1}{L}} - 1\right)$$