

Sweden: Financial Sector Assessment Program Update—Detailed Assessment of Observance on Insurance Core Principles

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FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE
SWEDEN

INSURANCE CORE PRINCIPLES

**DETAILED ASSESSMENT OF
OBSERVANCE**

SEPTEMBER 2011

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GLOSSARY

| | |
|-------------|---|
| AML-CFT | Anti-Money Laundering and Combating the Financing of Terrorism |
| ARA | Annual Reports Act |
| ARIUA | Annual Reports for Insurance Undertakings Act |
| ARN | National Board for Consumer Complaints |
| CDD | Customer due diligence |
| CEIOPS | Committee of European Insurance and Occupational Pensions Supervisors |
| CIB | The Swedish Consumers' Insurance Bureau |
| DG | Director-General |
| FAFT | Financial Action Task Force |
| FF | Swedish Insurance Federation (<i>Försäkringsförbundet</i>) |
| FI | Finansinspektionen (Swedish FSA) |
| FIBA | Foreign Insurance Business Act |
| EEA | European Economic Area |
| EU | European Union |
| FIO | Financial Supervisory Authority Instructions Ordinance |
| FSAP | Financial Sector Assessment Program |
| IBA | Insurance Business Act (1982:713), <i>Försäkringsrörelselagen</i> |
| IAIS | International Association of Insurance Supervisors |
| ICA | Insurance Contracts Act |
| ICPs | Insurance Core Principles |
| IFRS | International Financial Reporting Standards |
| IMF | International Monetary Fund |
| MD | Managing Director |
| MoU | Memorandum of Understanding |
| MoF | Ministry of Finance |
| MLTFO | Money Laundering and Terrorist Financing Ordinance |
| MTFs | Multilateral Trading Facilities |
| RPA | Rights of Priority Act |
| SCA | Swedish Consumer Agency |
| SECA | Swedish Economic Crime Authority |
| Secrecy Act | Public Access to Information and Secrecy Act (2009:400) |
| SIG | Swedish Instrument of Government |
| SIMA | Swedish Insurance Mediation Act |
| SNDO | Swedish National Debt Office |
| SOU | Statens Offentliga Utredningar |
| SSFCA | Supplementary Supervision of Financial Conglomerates Act |
| STR | Suspicious Transactions Reports |
| ULP | Unit-Linked Policies |

I. ASSESSMENT OF INSURANCE CORE PRINCIPLES

A. Introduction and Scope

1. **This assessment provides an update on the significant regulatory and supervisory developments in the insurance sector of Sweden since 2002.** The current assessment was conducted by Su Hoong Chang (Insurance Supervision Advisor contracted by the International Monetary Fund (IMF)) during March 9–22, 2011. Sweden undertook an initial Financial Sector Assessment Program (FSAP) in 2002, which included a formal assessment of its observance with the Insurance Core Principles (ICPs) issued by the International Association of Insurance Supervisors (IAIS) in 2000. The Swedish authorities have largely addressed the recommendations arising from the 2002 assessment (Appendix 1).

2. **The current assessment is benchmarked against the ICPs issued by the IAIS in 2003.** This update assessment also took account of the relevant IAIS standards and guidance that complements the ICPs, including the ICP materials adopted by the IAIS in October 2010.¹ These are noted by way of additional comments, where appropriate, and have no impact on the rating of the ICPs.

B. Information and Methodology Used for Assessment

3. **The level of observance for each ICP reflects the assessment of the essential criteria only.** Advanced criteria are not taken into consideration in assessing observance of the ICPs but are noted, where applicable. Each ICP is rated in terms of the level of observance as follows:

- “Observed”—where all the essential criteria are observed or where all the essential criteria are observed except for those that are considered not applicable.
- “Largely observed”—where only minor shortcomings exist, which do not raise any concerns about the authorities’ ability to achieve full observance.
- “Partly observed”—where, despite progress, the shortcomings are sufficient to raise doubts about the authorities’ ability to achieve observance.
- “Not observed”—where no substantive progress toward observance has been achieved.

4. **The assessment is based solely on the laws, regulations and other supervisory requirements and practices that are in place at the time of the assessment.** Ongoing regulatory initiatives are noted by way of additional comments.

¹ At the time of assessment, the IAIS was in the process of updating the ICPs and the corresponding standards, and guidance material. The IAIS has issued some ICP materials at its October 2010 general meeting, which may be revised for alignment and consistency when the revised ICP will be adopted in October 2011.

In particular, the parliament has passed a new Insurance Business Act (IBA), which will come into effect on April 1, 2011. A comprehensive self-assessment and other pertinent information provided by the authorities facilitated the assessment. The assessor also met a number of Swedish insurers as well as industry and professional associations, and has benefitted from their valuable inputs and insightful views.

5. **The assessor is grateful to the authorities for the full cooperation, thoughtful logistical arrangements and co-ordination of various meetings with industry participants.** In-depth discussions with and briefings by officials from the Swedish Financial Supervisory Authority (FI) facilitated a robust and meaningful assessment of the Swedish regulatory and supervisory regime for the insurance sector.

C. Overview—Institutional and Macro Prudential Setting

Market Structure and Industry Performance

6. **The insurance sector in Sweden is well developed and mature,** with an insurance density (premium per capita) of US\$3,540 and insurance penetration of 8.2 percent, compared to the average for Europe of US\$1,862 and 7.6 percent, respectively.² Around 50 percent of household financial assets are held in life insurance products.³ The insurance industry had about 19,700 employees as at end-2009, of which more than 14,000 were employed by nonlife insurers.

7. **The total number of insurers conducting business in Sweden has remained relatively stable** (Table 1). The net reduction of 9 insurers over the five years period from 2006 to 2010 was mainly attributable to a significant increase of 20 captive insurers, offset by the exit of 17 nonlife insurers and 14 livestock insurers. There have been a number of acquisitions since 2004,⁴ with increasing level of foreign ownership. Prior to 2000, life insurers offering unit-linked policies (ULP) were required to set up specialized unit-linked insurance companies. Although this requirement had since been waived, most life insurers still maintain their unit-linked subsidiaries. Friendly societies are small insurers owned by policyholders and some societies insure occupational pension funds. Livestock insurers are also small players, with aggregate assets of about SEK10 million as at end-2010.

8. **The captive insurance segment has grown markedly over the last 10 years, driven mainly by tax advantages.** Captive insurers are typically owned by large commercial groups and municipalities to insure/reinsure selected intra-group risks. About 130 Swedish industrial groups have established captives, of which 30 are

² Swiss Re Sigma 2/10.

³ Swedish Insurance Federation.

⁴ 2006 – Skandia (a life insurer) was acquired by Old Mutual plc of U.K. and South Africa.

2007 – SPP (an occupational pension insurer) was acquired by Storebrand ASA of Norway.

2009 – TrygVesta of Denmark acquired Moderna (a nonlife insurer), which now operates as a Swedish branch.

domiciled in Sweden. Factors contributing to the growth of captives include legislative amendment facilitating licensing of captives and deferral of tax in respect of premiums paid to captive (re)insurers. In addition, captive subsidiaries of Swedish parents are eligible to make tax-free transfers to/from their parents. Of the 49 licensed captives as at end-2009, 33 are pure captives, i.e., they do not write any third party liability risks while 16 captives write liability insurance involving third party claimants, mainly general liability insurance and some third party motor liability insurance. Eight of the captives are licensed to write direct insurance and four are authorized to conduct reinsurance activities while the rest conduct both direct and reinsurance business.

Table 1. Sweden: Number of Licensed Insurers and Intermediaries

| As at end of: | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------------------|-------|-------|-------|-------|-------|
| Domestic insurers | | | | | |
| Life insurance | 32 | 33 | 33 | 33 | 33 |
| Nonlife insurance | 174 | 157 | 159 | 146 | 157 |
| Unit-linked | 12 | 11 | 10 | 9 | 10 |
| Reinsurance | 3 | 5 | 5 | 5 | 5 |
| Captive insurance | 29 | 41 | 46 | 49 | 49 |
| Friendly societies | 81 | 79 | 78 | 78 | 82 |
| Livestock | 111 | 104 | 101 | 95 | 97 |
| Sub-total | 442 | 430 | 432 | 415 | 433 |
| Association of Underwriters | 1 | 1 | 1 | 1 | 1 |
| | 443 | 431 | 433 | 416 | 434 |
| Insurance intermediaries | | | | | |
| Insurance mediation employees | 2,024 | 2,334 | 2,865 | 3,642 | 3,860 |
| Insurance mediation | 881 | 917 | 923 | 984 | 1,044 |
| Foreign branches in Sweden | 26 | 30 | 30 | 28 | 29 |
| Swedish insurers' branches abroad | 33 | 40 | 48 | 47 | 47 |
| Insurance groups | 23 | 37 | 42 | 53 | 60 |

Source: FI's Swedish Data – FSAP.

9. **The number of insurance intermediaries⁵ has increased significantly since 2006.** Sweden implemented the European Union (EU) Directive on Insurance Mediation (2002/92/EC) in 2005, which requires intermediaries to be licensed and supervised. Industry feedback suggests that it is easier to obtain an insurance intermediary license to market collective investment schemes, which contributed to the high number of insurance intermediaries. *Bancassurance* is one of the main distribution channels of life insurance products. Of the four large Swedish banks, three are registered as “tied intermediary” (see *ICP 24*) of their related insurance subsidiaries and one is licensed as an insurance intermediary.

⁵ Insurance intermediary is defined as a person who presents or suggests insurance contracts or carries out other preparatory work before the execution of an insurance contract; enters into insurance contracts on behalf of a third party; or provides assistance in the management and performance of insurance contracts. (*Cpt 1 s1 of SIMA*).

10. **The Swedish insurance industry is concentrated.** While there are a large number of small local nonlife insurers and friendly societies, the market is dominated by a few large insurers/groups. All major banks have insurance subsidiaries and some large insurers have their own bank subsidiaries. Notably, the number of insurance groups more than doubled from 23 to 60, as at end-2010.⁶ The five largest insurance groups accounted for approximately 50 percent of total assets as at end-2009.⁷ The top five life insurers accounted for 61 percent of assets of the life sector while the top five nonlife insurers have about 55 percent market share in terms of gross premiums in 2009.

11. **Assets held by the insurance industry as at end-2009 totaled SEK 2,967 billion, of which life and unit-linked insurers accounted for 77 percent** (see Table 2). Assets held by insurers represented 95 percent of GDP as at end-2009.⁸ As at end-2009, insurers were the largest investor category in the Swedish bond market. Insurer' investments in bonds have been increasing steadily and reached SEK 1,125 billion as at end-2009 (see Figure 1), or approximately 50 percent of the total amount outstanding.

12. **Life and unit-linked insurers offer a diversified range of products, the bulk of which relate to pension insurance.** Traditional policies range from pure protection policies such as term insurance to policies that combine both protection and investment, i.e., savings with guarantees and where the insurer determines the investment policy and distribution of surplus. ULPs are generally issued in respect of occupational pension insurance, private pension insurance, endowment and capital pension insurance.⁹ ULPs are, in effect, investment products as life insurance coverage is not mandatory and policyholders bear all the investment risks. The analysis of new life insurance business is presented in Table 3. The occupational pension market is dominated by insurers owned by employers' organization and trade unions. Foreign risks written by life and unit-linked insurers are immaterial.

13. **Motor insurance is the dominant class of nonlife insurance and Swedish nonlife insurers write a significant level of foreign risks¹⁰(see Table 4).** Motor insurances accounted for 22 percent of total premiums written in 2009 while foreign risks made up 34 percent. The dominance of motor insurance is partly attributable to the comprehensive range of social insurance and the increasing use of captive insurance

⁶ In 2007, FI found that 47 insurers failed to report that they were part of insurance groups. (FI Report 208:16).

⁷ Skandia, SEB, Folksam, AFA and LF Liv.

⁸ The financial system's total assets amounted to about 550 percent of GDP, of which 65 percent belonged to the four largest banking groups.

⁹ Some life insurers offer pension products exclusively.

¹⁰ Foreign risks are those that do not qualify as Swedish risks (i.e., risks located in Sweden or where the insurers are residents in Sweden or having a permanent establishment in Sweden.)

by large industrial groups. The bulk of the foreign risks were written by foreign branches of Swedish nonlife insurers. Although insurers are required to report foreign risks accepted to FI, there is no analysis of foreign risk by lines of business or geographical location. In Sweden, the market for credit insurance and surety insurances dominated by branches of European insurers.

Table 2. Sweden: Assets Held by Swedish Insurers

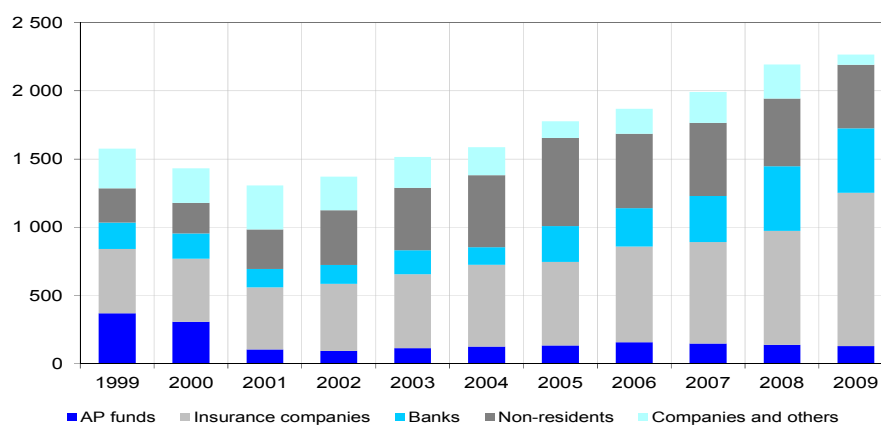
(In SEK millions)

| | 2006 | 2009 | Change | Percentage Share of Total |
|---------------------------|-----------|-----------|----------|---------------------------|
| Life insurance | 1,749,656 | 1,853,027 | 103,371 | 62 |
| Nonlife insurance | 503,514 | 541,712 | 38,198 | 18 |
| Unit-linked policies | 346,927 | 436,416 | 89,489 | 15 |
| Reinsurance | 6,183 | 8,873 | 2,689 | 0 |
| Captive insurance | 11,322 | 21,609 | 10,286 | 1 |
| Friendly societies | 129,001 | 105,567 | (23,434) | 4 |
| | 2,746,604 | 2,967,203 | 220,599 | 100 |
| Percentage of nominal GDP | 93 | 95 | | |

Source: FI's Swedish Data – FSAP.

Figure 1. Sweden: Investors in the Swedish Bond Market

(In SEK billions)



Source: Riksbanken, the Swedish financial market 2010.

Table 3. Sweden: Analysis of New Premiums—Life

(In SEK millions)

| | 2006 | 2007 | 2008 | 2009 |
|-------------|---------|---------|---------|---------|
| Traditional | 80,104 | 80,630 | 88,802 | 91,781 |
| | 59% | 62% | 63% | 60% |
| Unit-linked | 55,030 | 49,594 | 52,357 | 60,548 |
| | 41% | 38% | 37% | 40% |
| | 135,134 | 130,224 | 141,159 | 152,329 |

Source: FI's Swedish Data – FSAP.

Table 4. Sweden: Analysis of NonLife Premiums Written in 2009

| | Gross | Percentage | Net | Retention Percent |
|-------------------------------|--------|------------|--------|-------------------|
| Motor third party (mandatory) | 8,807 | 9 | 8,421 | 96 |
| Motor - others | 12,838 | 13 | 12,403 | 97 |
| Business and houseowner | 12,821 | 13 | 10,433 | 81 |
| Household and homeowner | 11,671 | 12 | 9,978 | 85 |
| Accident & health | 5,968 | 6 | 5,639 | 94 |
| Foreign risks | 32,704 | 34 | 27,363 | 84 |
| Others * | 11,163 | 12 | 8,866 | 79 |
| | 95,972 | 100 | 83,104 | 87 |

Source: FI's Swedish Data — FSAP.

* Others include marine, credit, aviation and animal insurances.

14. **Insurers' investments are mainly concentrated in bonds and equities, representing 37 percent and 52 percent of total assets as at end-2010, respectively** (Table 5). In particular, life insurers held 56 percent of their assets in equities (mainly in respect of ULPs) and are heavily exposed to equity risk, as evidenced during the crisis in 2008. Their equity portfolios have recovered with the market rebound since 2009. Investments in equities rose by another 15 percent (SEK 202 billion) in 2010 to reach SEK 1,539 billion as at end-2010, partly attributable to higher market valuation. The significant bond portfolios expose life insurers to interest rate risks.

15. **Both life and nonlife insurers are susceptible to developments in global financial markets through their holdings of foreign investments**, which totaled SEK 933 billion (32 percent of total assets) as at end-2010. Swedish insurers held approximately SEK 665 billions of sovereign bonds as at end-2009, of which 78 percent were issued by Swedish government. Another 9 percent and 7 percent were issued by authorities in Germany and the United States, respectively. The level of sovereign bond has remained largely unchanged in 2010, and the main exposure was to German sovereign bonds.

16. **Life insurers' investments are sensitive to interest rate changes, but the impact is even greater on their technical provisions.** Long-term interest rates have been declining and reached a record low in 2010 (Figure 2). Lower interest rates increase insurers' technical provisions mainly due to the discounting rate used to calculate the present value of insurers' policy commitments. On the asset side, there are reinvestment risks due to scarcity of suitable long-term investments¹¹ to match their long-term commitments. Swedish life insurers invest more than 30 percent of their assets in debt securities, with significantly shorter maturities compared to their long-term liabilities. Based on FI's calculation in 2009, a one percent decrease in interest rates for all maturities would mean an increase in the value of life insurers' liabilities by around SEK150 billion. The Swedish interest-bearing assets would only increase SEK 35 billion, so the net effect would be SEK115 billion given a one percent decrease in the discount rate.¹²

Table 5. Sweden: Analysis of Insurer's Assets

| | 2009 | | | 2010 | | |
|---|------------|------|----------|------------|------|----------|
| | | | Of which | | | Of which |
| | in 'SEK mn | | Foreign | in 'SEK mn | | Foreign |
| Life & Unit Linked¹ | | | | | | |
| Bonds | 846,567 | 38% | 269,785 | 830,255 | 34% | 255,888 |
| Equities | 1,186,032 | 53% | 441,226 | 1,366,685 | 56% | 472,695 |
| Real estate | 47,957 | 2% | 7,410 | 50,235 | 2% | 6,559 |
| Others | 157,894 | 7% | 10,428 | 204,535 | 8% | NA |
| | 2,238,450 | 100% | 728,849 | 2,451,710 | 100% | 735,142 |
| Nonlife | | | 33% | | | 30% |
| Bonds | 267,023 | 55% | 67,867 | 256,540 | 52% | 69,774 |
| Equities | 150,472 | 31% | 59,668 | 172,731 | 35% | 67,165 |
| Real estate | 14,963 | 3% | 6 | 16,175 | 3% | 5 |
| Others | 52,777 | 11% | 7,029 | 52,354 | 11% | NA |
| | 485,235 | 100% | 134,570 | 497,800 | 100% | 136,944 |
| | | | 28% | | | 28% |
| Total | | | | | | |
| Bonds | 1,113,590 | 41% | 337,652 | 1,086,794 | 37% | 325,662 |
| Equities | 1,336,504 | 49% | 500,894 | 1,539,416 | 52% | 539,860 |
| Real estate | 62,920 | 2% | 7,416 | 66,410 | 2% | 6,564 |
| Others | 210,671 | 8% | 17,457 | 256,890 | 9% | NA |
| | 2,723,685 | 100% | 863,419 | 2,949,510 | 100% | 933,304 |
| | | | 32% | | | 32% |

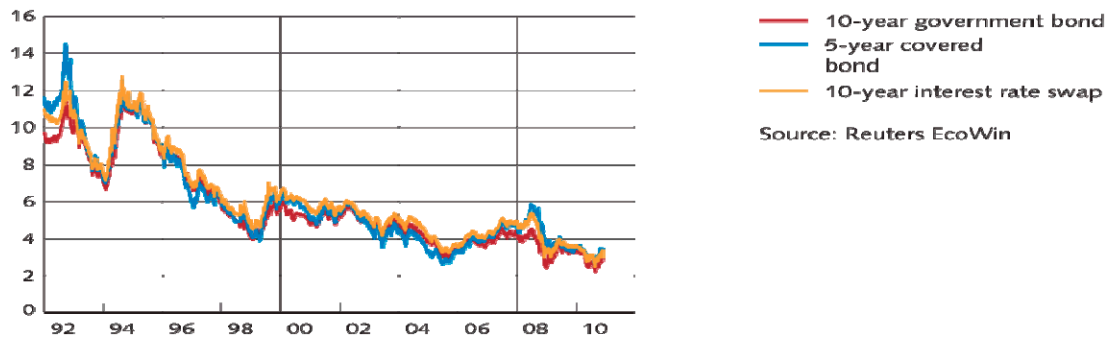
Source: Swedish Insurance in Figures by Statistics of Sweden.

Note 1: This analysis includes investments of ULPs totaling SEK 578,386 million.

¹¹ The average maturity of life insurers' assets is typically shorter than their liabilities, which can stretch more than 40 years, e.g., whole life policies or annuities. Maturing assets have to be reinvested and there is a risk the interest rate of the new investment may be lower than anticipated.

¹² Risks in the Financial System 2009, FI.

Figure 2. Sweden: The Yield on 10-Year Swedish Government Bond, 10-Year Swedish Interest Rate Swap, and 5-Year Swedish Covered Bond



Source: Financial Stability Report 2/2010, Riksbank.

17. **Insurers' solvency levels were hit badly in 2008 but recovered in 2009 (Table 6).** Life insurers' solvency was hit badly in 2008 due to a combination of falling asset prices and a sharp fall in interest rates.¹³ While their solvency ratios have recovered somewhat in 2009 (Figure 3), some life insurers are close to solvency intervention level and are monitored by FI closely. While the impact of the financial crisis on nonlife insurers was more moderate, both the overall operating income and solvency ratio dropped in 2008. The overall solvency ratio for nonlife insurers improved in 2009 and FI's assessment is that there is only a minor solvency risk¹⁴ (Figure 4). In contrast, the solvency ratios for reinsurers and captives have been declining since 2007, and a number of captive insurers are subject to closer monitoring by FI. Notably, the reported solvency ratios are computed under the Solvency I regime and not sufficiently risk-sensitive. FI supplements its solvency assessment using the Traffic Light model through prescribed stress testing (details under ICP 23).

18. **The key risks for nonlife insurers include intense competition and exposures to catastrophic risks.** Competition amongst the many players in the Swedish nonlife insurance industry exerts significant pressures on their premium ratings. FI noted that over the period 2005 to 2008, nonlife insurers experienced a real decrease in earned premiums after adjusting for inflation.¹⁵ While some insurers have already exited the market in the last few years, enhanced regulatory requirements for governance and risk management under the EU Solvency II regime to be implemented in 2013 may lead to further industry consolidation. Nonlife insurers' exposures to catastrophic weather conditions are not negligible and insurers expect increasing risk

¹³ Overall, life insurers recorded a net loss in 2008 with a **negative** return-on-equity of 48 percent.

¹⁴ As of June 30, 2010, 68 percent of nonlife insurers had a solvency ratio of more than five. A small number of insurers reported a solvency ratio of less than two. No insurer had a solvency ratio under one. Stress tests under the Traffic Light model also showed that nonlife insurers have good margins and a relatively stable ratio of more than 3, on average.

¹⁵ Risk in Financial System 2009, FI.

exposures to catastrophic weather conditions. Insurers may limit their exposure through policy conditions, which could also be cushioned by contingency reserves held as part of their own funds. Going forward, new business opportunities are mainly in products bordering the social insurance system.

Table 6. Sweden: Capital and Solvency of Insurers as at End-2009

(In SEK millions)

| | Life | Unit-linked | Nonlife | RI | Captive | Total |
|------------------------|-----------|-------------|---------|-------|---------|-----------|
| Share capital | 619,967 | 22,795 | 138,692 | 1,627 | 10,303 | 793,385 |
| Subordinated loans | 3,029 | 100 | 4,588 | 0 | 9 | 7,726 |
| Technical provisions | 1,129,019 | 401,576 | 330,377 | 5,644 | 6,823 | 1,873,438 |
| Other reserves | 1,613 | 1,120 | 9,369 | 9 | 13 | 12,124 |
| Other liabilities | 99,549 | 10,825 | 58,683 | 1,592 | 4,461 | 175,111 |
| | 1,853,178 | 436,416 | 541,709 | 8,873 | 21,609 | 2,861,784 |
| Solvency ratio* | | | | | | |
| 2008 | 7.18 | 4.29 | 6.72 | 2.76 | 7.97 | |
| 2009 | 13.70 | 4.68 | 9.48 | 2.63 | 6.92 | |

Source: FI's Swedish Data — FSAP.

*Solvency ratio = available solvency margin/required solvency margin.

Figure 3: Sweden Solvency Ratios—Life

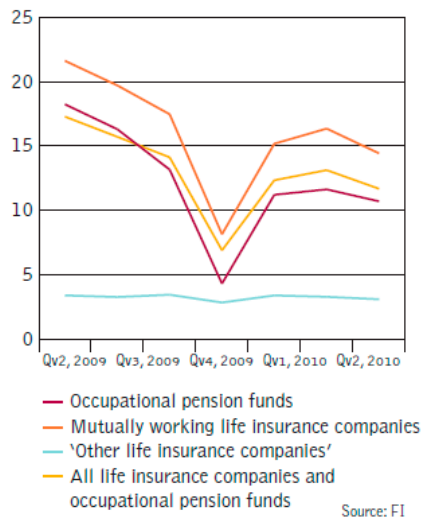
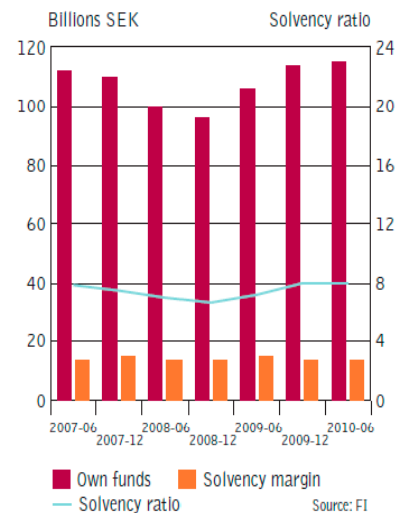


Figure 4. Sweden: Capital & Solvency— NonLife



Source: Risk in Financial System October 2010, FI.

19. **A prolonged low interest climate is a significant challenge for life insurers, with risks of unintended consequences arising from their investment strategies.** Life insurers are exposed to interest rate risks on both the asset and liability sides of their balance sheets (paragraph 16 above). In particular, FI noted that insurance savings invested in life insurers and occupational pension funds amounted to SEK1,900 billion as at end-2009. More than 70 percent of these savings are linked to commitments based

on long-term interest rate guarantees.¹⁶ A potential concern is that if insurers decide to manage their financial risks by selling shares and purchasing interest-bearing assets, it would put more downward pressure on both the stock market and interest rates resulting in a vicious circle. Such a scenario may also have systemic implications for other financial market participants.¹⁷ Life insurers are also confronting intensive competition from other investment products, compounded by the eroding tax advantage they used to enjoy.

Institutional Framework and Arrangements

20. **FI is the integrated supervisor for the financial sector in Sweden,** supervising about 3,700 entities: banks, credit institutions, investment firms, fund managers, trading platforms, exchanges, insurers, insurance intermediaries and mutual societies. It is a central administrative authority with the mandate to promote stability and efficiency in the financial system as well as to ensure effective consumer protection.

21. **FI is accountable to the Ministry of Finance (MoF) and its annual budgets are funded by the MoF.** FI is governed by an eight-member Board of Directors appointed by the government. The Director-General (DG) is the head of FI. The Swedish parliament is the only public body with the authority to adopt new laws or to amend existing legislation. The specific act authorizes the government to issue further regulations in an ordinance. The government is responsible for formulating and issuing financial sector legislations and regulations and may authorize FI to issue secondary regulations, only if it is specifically provided for under the relevant law or primary regulations.

22. **FI supervises only private insurance business and social insurances are not subject to FI supervision.** Social insurance is an integral part of the Swedish social security system, providing financial protection for disability, work injury, illness, and old age (state pension). Försäkringskassan is the agency that administers social insurance. While FI supervises the activities of life insurers in respect of occupational and private pension products, it collaborates closely with Pensionsmyndigheten, which administers the public pension segment.

23. **To enhance collaboration amongst regulatory/supervisory authorities in Sweden, the MoF, the Riksbank, FI and the Swedish National Debt Office (SNDO) have signed a Memorandum of Understanding (MoU).** The objective is to establish guidelines for consultation and the exchange of information between the parties in the

¹⁶ “The average guaranteed interest rate in the companies’ portfolios is currently around 3.5 percent. Many agreements are 15–20 years old and promise a guaranteed interest rate of 5 percent, while new policies normally have a rate of between 2 percent and 2.5 percent.”

¹⁷ “Risk in Financial System”—October 2010, FI and “How life insurance companies can affect financial stability”—Financial Stability Report 2/2010, Riksbank. *ICP 20* below outlines FI’s proposal to use interest smoothing rate under the impending Solvency II regime.

areas of financial stability and crisis management. The MoU also provides for cooperation between the Riksbank and FI and their respective accountabilities. Pursuant to the MoU, a Domestic Standing Group¹⁸ was established to facilitate consultation and information sharing.

24. **The key legislation governing private insurance activity in Sweden is the IBA and the Foreign Insurance Business Act (FIBA).** IBA and FIBA set out the regulatory requirements for the establishment of insurance entities, rules pertaining to their operations and the supervisory mandate of FI. The IBA is supported by implementing regulations and guidelines that elaborates FI's supervisory expectations. The Insurance Contracts Act (ICA), which entered into force on 1 January 2006, regulates the legal relationship between insurers and insureds as well as other legitimate claimants. In general, any insurance clauses less favorable for consumers than those set forth in the ICA are invalid. A separate Motor Insurance Act applies to mandatory motor third party insurance.

25. **The authorities are taking proactive measures to address the key lessons learnt from the financial crisis in 2008/9.** Sweden has set up a government commission to review the lessons from the current crisis, including supervisory capacity building.¹⁹ In particular, the crisis highlighted that greater clarity is required on the respective roles of the various agencies for financial stability and the supervisory tools that they are empowered to use.²⁰

Key Findings and Recommendations

26. **The Swedish regulatory framework has a high level of observance with the ICPs (Table 7).** The regulatory regime is broadly in line with EU Directives governing licensing, solvency, insurance intermediaries and consumer protection. FI has also introduced the Traffic-Light model, a framework for stress testing, to better understand insurers' risk exposures and facilitate early intervention. FI adopts a systematic supervisory risk assessment process to prioritizing and planning supervisory activities and resources. The new IBA, which came into effect on 1 April 2011, provides broader powers to FI to issue secondary regulations to address a number of supervisory gaps. The impending implementation of Solvency II will strengthen FI's risk-based supervision, subject to the adequacy of supervisory resources.

27. **The coverage and robustness of FI's prudential supervision should be strengthened.** FI has no legal authority to establish and assess fitness and propriety of

¹⁸ The Group comprises the State Secretary (MoF), an executive board member of the Riksbank, the Director General of FI; and the Director General of the SNDO.

¹⁹ The review covers: the division of labor on micro and macroprudential regulations among the relevant authorities; macroprudential tools; bank resolution framework and deposit insurance scheme; international reserve management; and supervisory capacity building.

²⁰ Riksbank's announcement: <http://www.riksbank.com/templates/Page.aspx?id=43389>.

senior management of insurers during the licensing stage and on on-going basis. There is no regulatory requirement for insurers to report their reinsurance strategies and programs, outsourcing arrangements and off-balance sheet exposures including derivatives transactions. Supervision of insurance groups needs to be strengthened in the areas of reinsurance, risk concentrations and group risk management. FI has been focusing its supervision on the top 12 to 13 insurers while smaller insurers are inspected on an exception basis. Notably, FI has started a process to cover the smaller insurers on a 5-year cycle. It is advisable that FI formulates a risk-based supervision approach based on both the impact and probability of failure, supported by appropriate baseline supervision.

28. **There is scope for additional regulatory requirement to enhance protection of policyholders.** FI has not issued regulations or guidelines on conditional bonuses²¹ setting out how life insurers are expected to exercise their discretion in the distribution of surplus in an equitable manner, the basis for computing technical provisions and related disclosures to policyholders. The possibility of transferring policies by policyholders has increased in recent years, primarily due to the introduction of a mandatory option of transferring in 2007 and voluntary transfer of policies with regard to private collective insurances. It is recognized that most transfers of traditional policies are likely to result in lower benefits to policyholders due to the reduced assumed yield rates over the years. While the reduced benefits may be compensated by lower administration costs and products that are more suitable to the risk profiles of policyholders in some cases, it is timely to study the net impact on policyholders to ensure that their interests are not compromised. The authorities are advised to review whether existing regulatory measures are adequate to ensure that policyholders are given proper advice in their best interests in respect of policy transfers.

29. **The authorities are advised to review the continued involvement of the government in institution-specific supervisory issues.** The IBA explicitly provides for government's involvement in institution-specific issues such as license approval or revocation, issuing reprimands or imposition of administrative fines, or where an insurer fails to comply with an order by FI. While such involvement is intended for "matters of principle or special importance," the IBA does not specify the circumstances. The authorities explained that the government does not get involved as a matter of practice. Nonetheless, the possibility of intervention may compromise FI's independence.

30. **It is important that FI is adequately resourced and empowered in order to effectively discharge its supervisory mandates.** FI's insurance supervisory staffs are competent and qualified. However, due to inadequate resources to supervise a large number of insurers, FI had to make difficult compromises and has been unable to

²¹ Some life policies provide for conditional bonuses that are not guaranteed but would vary according to the investment performance of the underlying assets.

implement appropriate baseline supervision. Going forward, there are also significant resource implications arising from the implementation of Solvency II and supervision of cross-border insurance groups/conglomerates. The FI had a narrow scope in issuing binding secondary regulations to address emerging supervisory issues on timely basis. In this regard, the new IBA which provides FI with a broader mandate to issue secondary regulations is a positive development. The authorities are advised to carefully consider whether the level of legal protection available to the FI and its staff is at the level envisaged by ICP3.

Table 7. Sweden: Summary of Compliance with the ICPs

| ICP | Grading | Comments |
|--|---------|--|
| 1. Conditions for effective insurance supervision | O | A sound and clearly defined financial sector policy framework facilitates insurance supervision in Sweden. Swedish accounting, auditing and actuarial standards are generally consistent with international standards. There is a high degree of self-regulation by the Swedish insurance industry. A well developed financial infrastructure and easy access to international markets contribute to the effectiveness of insurers' asset-liability management. |
| 2. Supervisory objectives | O | FI's mandate is to promote a stable and well-functioning financial system with a good level of consumer protection. |
| 3. Supervisory authority | PO | FI exercises supervision within the state budget framework and MoF's annual appropriation letters and is subject to clear accountability mechanisms. While FI's staff members are competent and qualified, more supervisory resources are required to implement a robust risk-based supervision, supported by appropriate baseline supervision. FI had experienced insufficient powers to issue secondary regulations secondary regulations in a few concrete areas, a concern that has been largely addressed by the new IBA. It is unclear whether the legal protection available to FI and its staff is at the level envisaged by ICP 3. The possibility of government involvement in institution-specific issues may compromise FI's independence. |
| 4. Supervisory process | O | FI adopts a transparent supervisory approach, supported by the Traffic Light model. It has instituted structured processes for prioritization of supervisory activities and risk assessment to ensure consistency in supervisory measures and decisions. FI has clear accountabilities to the parliament, the industry and the public through various channels. |
| 5. Supervisory cooperation and information sharing | O | FI is empowered and regularly exchanges information with other supervisors, both within and beyond EU, subject to confidentiality safeguards. Sweden is a signatory of the Helsinki protocol, the revised Siena protocol and Budapest protocol. |
| 6. Licensing | LO | The licensing policy, criteria, and procedures are clear and transparent. However, the IBA provides for government involvement in the licensing of specific institutions. Senior |

| ICP | Grading | Comments |
|---|---------|---|
| | | managers (except Managing Director (MD)) are not subject to fit and proper assessment. |
| 7. Suitability of persons | LO | FI conducts due diligence checks on board members, MDs as well as qualifying holders of insurers and may remove such persons if they are no longer fit and proper. FI has no power to remove auditors or actuaries, nor do they have to be approved. FI is also not empowered to assess senior managers (who are not MD). FI may, however, take action indirectly by requiring insurers to take corrective action if it finds that such persons do not meet regulatory requirements. |
| 8. Changes in control and portfolio transfers | O | The regulatory requirements for acquisition and changes in control as well portfolio transfer are clearly set out under the IBA and FIBA. FI will not approve a portfolio transfer unless it is satisfied that the rights of the policyholders would not be adversely affected. |
| 9. Corporate governance | LO | The corporate governance framework for insurers is broadly in line with ICP 9. FI examines insurers' corporate governance practices during its on-site inspections and has taken necessary supervisory measures, where appropriate. The authorities are advised to strengthen the corporate governance regime for insurers to reflect international standards and promote the objectivity and effectiveness of the board of directors. |
| 10. Internal controls | O | FI supervises and assesses insurers' internal controls in line with the requirements under the IBA and its corporate governance guidelines. It is empowered and has taken supervisory measures against insurers for deficiencies in internal controls. |
| 11. Market analysis | LO | FI has a systematic and transparent approach to market analysis to identify, assess and mitigate risks to the insurance sector. The publication of insurance and other market statistics facilitate insurers' understanding of systemic developments that have implications for their operations. Due to limited resources, FI does not analyze developments outside the Swedish market on a regular basis. It would perform such analysis, when found important, as part of its group supervision. |
| 12. Reporting to supervisors | LO | FI has issued regulations and guidelines setting out the scope, content and frequency of reports by different types of insurers. It is also empowered to require additional reports necessary for effective supervision or timely intervention. As the regulatory returns are not audited, FI has to reconcile the returns with insurers' audited annual reports. Insurers are not required to report outsourcing arrangements as well as derivatives and off-balance sheet transaction to FI regularly. FI does not have adequate resources to conduct adequate off-site monitoring for all licensed insurers. |
| 13. On-site inspection | LO | FI conducts both full scale and focused inspections. It has also conducted joint inspections with foreign supervisors. It does |

| ICP | Grading | Comments |
|--|---------|--|
| | | not have adequate resources to implement baseline supervision for a large number of supervised insurers and intermediaries, as part of its risk-based supervision. Effective inspection should go beyond a checklist approach in order to better understand insurers' operations and risks. |
| 14. Preventive and corrective measures | O | FI is empowered to take a progressive escalation of preventive measures to address emerging supervisory concerns. |
| 15. Enforcement or sanction | LO | FI takes a proportionate approach in exercising its enforcement and sanction powers. However, FI has no power to: a) order a compulsory transfer of insurance portfolios; b) intervene against a subsidiary of an insurer who is not under its supervision; and c) take measures to protect the interests of the public and policyholders pending the completion of police investigations. |
| 16. Winding-up or exit from the market | LO | The IBA and FIBA provides for orderly exits of insurers from the market. Policyholders (including ceding insurers) and legitimate beneficiaries have priority rights to the assets covering insurers' technical provisions in the event of insolvency. Regulatory requirements over assets covering technical provisions could be strengthened and clear rules of distribution of assets in the event of insolvency should be established. |
| 17. Group-wide supervision | LO | Sweden's regulatory frameworks for insurance groups and conglomerates are in line with current EU Directives. However, there are no specific provisions regarding: reinsurance, risk concentrations, internal controls and risk management processes applicable to insurance groups The impending implementation of Solvency II will strengthen supervision of insurance groups, subject to the adequacy of regulatory resources. |
| 18. Risk assessment and management | LO | FI has issued guidelines on its supervisory expectation of insurers' risk management. There is a lack of resources to implement policies and processes to monitor the adequacy of insurers' risk management systems on a regular basis. |
| 19. Insurance activity | LO | FI has issued guidelines on managing underwriting risks and reinsurance risks. It reviews insurers' underwriting policies and controls as well as reinsurance arrangements during on-site inspections. Supervisory processes in relation to assessment of insurers' reinsurance arrangements and risk transfer instruments could be enhanced. |
| 20. Liabilities | LO | FI has established principles and regulatory guidelines on the computation of insurers' technical provisions, which are subject to stress testing under the Traffic Light Model. FI is empowered to require insurers to remedy any shortfall in their technical provisions, if necessary. However, there is no explicit risk margin and no regulatory policy for computing technical provisions in respect of conditional bonuses. |

| ICP | Grading | Comments |
|---|---------|---|
| 21. Investments | LO | The IBA and FI regulations set out the requirements for insurers' investments covering technical provisions. There is scope for updating FI's regulations to reflect international best practice. FI does not have adequate resources to examine insurers' investment operations on a regular basis. |
| 22. Derivatives and similar commitments | PO | Insurers disclose their derivative activities in accordance with relevant accounting standards, Annual Reports Act (ARA) and Annual Reports for Insurance Undertakings Act (ARIUA). However, FI has not issued regulations on insurers' derivative activities. It is in the process of drafting the regulations; as it is authorized do so under the new IBA. |
| 23. Capital adequacy and solvency | LO | The current solvency regime in Sweden is largely based on EU Solvency I. As the regime does not take account of all key risks of insurers, FI has introduced the Traffic Light model with prescribed stress testing and reporting requirements as a supervisory tool to better understand insurers' risks profiles and to facilitate early intervention, where appropriate. |
| 24. Intermediaries | O | FI administers the licensing of intermediaries with established criteria and monitors intermediaries' compliance with applicable regulatory requirements. |
| 25. Consumer Protection | LO | The regime for consumer protection in Sweden is established under various legislations, administered mainly by FI and Swedish Consumer Agency (SCA) with the support of industry associations. Other agencies involved include the National Board for Consumer Complaints and the Consumer Ombudsman. Consumer protection should be strengthened by establishing regulatory requirements for conditional bonuses and review of effectiveness of regulatory measures for transfer of policies. |
| 26. Information, disclosure and transparency towards markets | LO | The ARIUA, ARA as well as regulations and guidelines issued by FI governs insurers' public disclosure. However, the disclosures do not fully cover the requirements under the IAIS standards on public disclosure. |
| 27. Fraud | O | FI and industry participants have taken a proactive approach to combating insurance fraud. There is also close cooperation and information exchange with Swedish Economic Crime Authority (SECA) and other enforcement agencies and other supervisors, both locally and internationally, to address fraud to preserve the integrity of the insurance sector. |
| 28. Anti-money-laundering, combating the financing of terrorism | LO | Recent FATF follow-up report has noted that Sweden has taken measures to bring 18 out of the 20 recommendations previously rated partially compliant or noncompliant to at least a level equivalent to largely compliant. More supervisory resources are needed to ensure effective supervision of anti-money laundering/combating the financing of terrorism (AML-CFT) compliance by insurers' and insurance intermediaries. |

Summary of Grading

| | |
|-----------------------|----|
| Observed (O) | 9 |
| Largely observed (LO) | 17 |
| Partly observed (PO) | 2 |
| Not Observed (NO) | 0 |
| Total | 28 |

Table 8. Sweden: Recommendations to Improve Observance of ICPs

| ICP | Comments |
|--|---|
| 2. Supervisory objectives | The authorities are advised to consider adopting explicit supervisory objectives for the insurance sector, including FI's role in protecting policyholders. |
| 3. Supervisory authority | The authorities are advised to: <ul style="list-style-type: none"> a) Review the adequacy of supervisory resources for effective implementation of a more robust risk-based supervision; b) Consider a more principle-based approach in respect of the scope for FI to issue secondary regulations; c) Review the role of the government in institution-specific supervisory issues; d) Consider reviewing whether the legal protection available to FI and its staff members are at the level envisaged by ICP3; and e) Require publication of the reasons for the removal of board members and the DG of FI. |
| 4. Supervisory process | The authorities are advised to consider reviewing the impact of judicial review on the ability of FI to make timely interventions to protect policyholders' interests. |
| 5. Supervisory cooperation and information sharing | The authorities are advised to expedite Sweden's accession to the IAIS multilateral MoU. |
| 6. Licensing | The authorities are advised to: <ul style="list-style-type: none"> a) review the government's role in the licensing process under the IBA; b) extend the fit and proper assessment to senior management of insurers; c) consider empowering FI to impose licensing conditions; and d) consider having a definition of insurance business in the IBA. |
| 7. Suitability of persons | The authorities should introduce regulations including: <ul style="list-style-type: none"> a) explicit provision for FI to assess the fitness and propriety of senior management of insurers as well as their auditors and actuaries; and b) to require insurers to notify FI of circumstances that may affect the fitness and propriety of its board members, MD, senior managers, auditors and actuaries. |
| 9. Corporate governance | The authorities are advised to establish clear corporate governance |

| ICP | Comments |
|--|--|
| | standards for insurers on: <ul style="list-style-type: none"> a) The minimum level of independent directors and criteria for independence; b) Establishment of relevant board committees, taking into account the nature, scale and complexity of their operations; c) Policies and procedures to assess the effectiveness of their boards; d) The role and accountabilities of senior managers; and a) Providing actuaries with direct access to the board and board committee on a timely basis. |
| 10. Internal controls | To strengthen the checks and balances of insurers' operations, FI is advised to consider adopting explicit provisions to ensure that internal auditors have unfettered access to the board and senior management as well as appropriate status to ensure that senior management acts upon its recommendation. |
| 11. Market analysis | It is important that FI enhance its capacity and resources to analyze the developments outside the Swedish market on a regular basis including Swedish insurers' exposures to foreign risks. |
| 12. Reporting to supervisors | FI is advised to: <ul style="list-style-type: none"> a) formulate a more robust risk-based supervision approach based on both the impact and probability of failure, supported by an appropriate baseline supervision; b) review the adequacy of resources for off-site monitoring; c) establish clear regulatory requirement for insurers to report their reinsurance strategy and program, outsourcing arrangements and off-balance sheet exposures including derivatives transactions; and d) require annual regulatory returns of insurers to be audited. |
| 13. On-site inspection | FI is advised to improve the robustness of on-site inspection and ensure that the planned baseline onsite supervisory program is supported by adequate supervisory resources. |
| 15. Enforcement or sanction | The authorities are advised to: <ul style="list-style-type: none"> a) Empower FI to order a c; b) ompulsory transfer of insurance portfolios of an insurer in distress; c) Strengthen FI's intervention powers against unregulated entities within an insurance group or financial conglomerate; d) Consider how best to empower FI in taking necessary measures to protect the interests of the public pending the completion of police investigations; and e) Review the government's continued involvement in enforcement and sanctions at institution-specific level. |
| 16. Winding-up or exit from the market | The authorities are advised to strengthen protection of policyholders and legitimate beneficiaries by: <ul style="list-style-type: none"> a) ensuring adequate controls over assets covering technical provisions |

| ICP | Comments |
|---|---|
| | <p>including quarterly submission of the special register of assets; and</p> <p>b) establishing clear rules on how existing assets of an insolvent insurer are to be distributed amongst policyholders.</p> |
| 17. Group-wide supervision | <p>The authorities are advised to consider:</p> <p>a) reviewing the adequacy of supervisory resources, particularly for the effective supervision of cross-border groups/conglomerates;</p> <p>b) harmonizing the supervisory approach for insurance groups and conglomerates, e.g., in the area of risk concentration; and</p> <p>c) formulating appropriate regulatory requirements applicable to nonregulated holding companies.</p> |
| 18. Risk assessment and management | <p>FI is advised to develop policies and processes to monitor the adequacy of insurers' risk management systems on a regular basis including requiring insurers to report on their risk management system as part of the annual returns.</p> |
| 19. Insurance activity | <p>FI is advised to:</p> <p>a) review the adequacy of reinsurance programs as part of its routine off-site surveillance instead of the current limited scope review; and</p> <p>b) establish policies and procedures to check that insurers properly account for all risk transfer instruments.</p> |
| 20. Liabilities | <p>The implementation of Solvency II will strengthen FI's supervision over insurers' technical provisions.</p> |
| 21. Investments | <p>FI is advised to enhance the robustness of its supervision of insurers' investment operations and update its regulations on investment management by insurers.</p> |
| 22. Derivatives and similar commitments | <p>The authorities are advised to expedite the issuance of regulations governing insurers' derivative activities.</p> |
| 23. Capital adequacy and solvency | <p>The implementation of Solvency II with effect from January 2013 will facilitate FI in implementing a more robust and risk-sensitive solvency regime.</p> |
| 25. Consumer protection | <p>The authorities are advised to:</p> <p>a) review the adequacy of current regulatory requirements for conditional bonus and transfer of policies; and</p> <p>b) consider articulating more clearly the roles and accountabilities of various agencies involved in consumer protection to improve efficiency and promote better understanding by consumers.</p> |
| 26. Information, disclosure and transparency towards markets | <p>To facilitate market discipline, FI should formulate plans to implement the IAIS supervisory standards on public disclosures.</p> |
| 28. Anti-money-laundering, combating the financing of terrorism | <p>The authorities are advised to:</p> <p>a) review the adequacy of resources for AML-CFT supervision; and</p> <p>b) update the legal requirements where insurers rely on intermediaries to perform customer due diligence (CDD).</p> |

Authorities' response to the assessment

31. The Swedish authorities welcome the assessment of the regulation and supervision of the insurance sector. On the whole, we share the views expressed in the assessment as well as the grading of observance of the Insurance Core Principles. The recommendations given will be used to improve the regulation and supervision of the Swedish insurance sector.

32. Several of the issues raised will be dealt with once the new regulatory framework for the insurance sector, i.e. Solvency II, is implemented. Sweden is also participating in ongoing work carried out by IAIS on Internationally Active Insurance Groups, which will contribute to further development of the supervisory standard. Additionally, regulation regarding transfer of policies as well as other life insurance related issues is currently under national review.

II. DETAILED PRINCIPLE-BY-PRINCIPLE ASSESSMENT METHODOLOGY

Table 9. Sweden: Detailed Assessment

| Conditions for Effective Insurance Supervision | |
|--|--|
| Principle 1. | <p>Conditions for effective insurance supervision</p> <p>Insurance supervision relies upon:</p> <ul style="list-style-type: none"> - a policy, institutional and legal framework for financial sector supervision; - a well developed and effective financial market infrastructure; and - efficient financial markets. |
| Description | <p>The Financial Supervisory Authority Instructions Ordinance (FIO) establishes FI as the integrated supervisor for the entire financial sector. FI is responsible for: a) the supervision, rule establishment and processing of license applications relating to financial markets and financial entities; and b) coordinating supervision under the Money Laundering and Terrorist Financing Ordinance (MLTFO) (s1 of FIO).</p> <p>The IBA sets out the legal and policy framework for the supervision of the insurance industry, providing FI with a range of enforcement and sanction powers (see ICP 14 and ICP 15).</p> <p>In Sweden, the general courts handle criminal and civil cases, while the general administrative courts deal with cases concerning public administration. Both types of courts are organized in a three-tier system with courts of first instance, appeals courts and a supreme court.</p> <p>Proceedings concerning financial legislation and regulation are normally heard by the administrative courts, e.g., when a firm appeals a decision made by FI. Permanent judges in Sweden are appointed by the Government. Provisions in the Swedish Instrument of Government (SIG), one of the four statutes that make up the Swedish constitution, address the independence of judges and enumerate the grounds on which judges can be dismissed. (SIG cpt11, s7).</p> <p>The ARIUA is generally consistent with International Financial Reporting Standards (IFRS), albeit with some local adaptation. The Swedish auditing standards are based upon the International Standards on Auditing issued by International Auditing and Assurance Standards Board. Actuarial standards are set out in IBA and guidelines issued by FI. (S10 of FIO).</p> <p>Auditors and actuaries must meet the requirements under the IBA. Only approved auditors¹ or chartered accountants² may serve as auditors of insurers and they must be independent from insurers. Insurers' estimation of technical provisions shall be performed under the</p> |

¹ An approved auditor (*Sw. godkänd revisor*) is authorised by the Swedish Supervisory Board of Public Accountants (*Sw. Revisorsnämnden*) for a period of five years. The qualifying criteria include: a university degree in economics; at least three years recognised practical experience; passed an examination of professional competence; and of good repute and otherwise be fit and proper.

² A chartered accountant (*Sw. auktoriserad revisor*) is also authorised by the Swedish Supervisory Board of Public Accountants for a period of five years. In addition to the standards set out above, a chartered accountant must have at least five years recognised practical experience and pass an advanced examination of professional competence.

| | |
|--|--|
| | <p>supervision of actuaries. Both the approved auditor and actuary shall possess appropriate understanding and experience, taking into consideration the nature and the scope of an insurer's operations. (ICP 7). (Cpt7, s18 of cpt 8 & s3 of cpt 10 of IBA, FFFS 2003:8, FFFS 2008:23 and FFFS 2008:26).</p> <p>The external auditor of an insurer has whistle-blowing obligations to notify FI of circumstances that could: a) represent a significant contravention of the relevant laws; b) adversely affect the ongoing operation of an insurer; or c) lead to qualified opinion. Auditors have not made such a notification to FI. The authorities are in active dialogue with auditors to enhance cooperation and achieve common understanding on the role of auditors in prudential supervision. (Cpt10, s8c of IBA).</p> <p>The Supervisory Board of Public Accountants (Revisorsnämnden) is responsible for supervising the accounting profession. Far is the professional institute for authorized public accountants (auktoriserade revisorer), approved public accountants (godkända revisorer), and other professionals in the accountancy sector in Sweden. Currently, Far has 5,900 members. Membership is not mandatory for auditors of insurers so long as they meet the criteria of approved auditor or chartered accountant.</p> <p>The Actuarial Society of Sweden (Sw. Svenska Aktuarieföreningen) is a full member of the International Actuarial Association and Groupe Consiltatif. It has 435 members, of which 123 are full members. Membership is not compulsory for actuaries appointed by insurers. Actuaries do not have whistle-blowing obligations under the IBA and the new IBA has introduced provisions that will limit actuaries' professional liabilities.</p> <p>FI and Statistics Sweden publish statistics on Sweden, including those relating the insurance sector.</p> <p>There is a high degree of self-regulation in the Swedish insurance industry. The Swedish Insurance Federation (Försäkringsförbundet) is the trade association representing more than 90 percent of the Swedish insurance market. It actively promotes the interests of its members, both locally and internationally through the Comité Européen des Assurances. Other industry bodies include the Committee for Bodily Injury Liability Insurance, Committee for Accident and Sickness Insurance as well as the Committee for Insurance of Persons. The various committees issue reports and statements that serve as guidelines, e.g., how certain clauses are to be interpreted to promote a uniform practice.</p> <p>The financial and capital market in Sweden is well developed. In 2009, there were 281 companies listed on a regulated market³ and another 241 companies traded on Multilateral Trading Facilities (MTFs)⁴ with a combined market capitalization as at end-2009 of SEK3,413 billions and turnover of SEK3,393 billions (average daily turnover of SEK13.5 billions). A wide range of derivatives contracts are also traded on and cleared by the NASDAQ OMX Derivatives Markets. As at end-2009, the total volume on the Swedish bond market⁵ amounted to SEK 2,265billions.</p> <p>Insurers also have access to a wide range of financial instruments, both regionally and internationally, which contributes to effective asset-liability management.</p> |
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³ There are two regulated markets in Sweden: NASDAQ OMX Stockholm and Nordic Growth Market.

⁴ There were four MTFs in Sweden: First North, Nordic MTF, Burgundy and Aktietorget.

⁵ The term Swedish bond market refers to the market for bonds issued by Swedish issuers in SEK. Bonds issued in other currencies are converted into SEK. As a rule, issuances conducted in other currencies are converted into SEK via derivatives, primarily currency swaps. Insurers were the largest category of investors in the SEK bond market, accounting for approximately 50 percent of the outstanding in the bond market as at end-2009.

| | |
|------------------------|--|
| | Sweden updates its laws regularly in order to reflect changes in EU Directives and to keep pace with international and market developments. |
| Assessment | Observed |
| Comments | A sound and clearly defined financial sector policy framework facilitates insurance supervision in Sweden. Swedish accounting, auditing and actuarial standards are generally consistent with international standards. There is a high degree of self-regulation by the Swedish insurance industry. A well-developed financial infrastructure and easy access to international markets contribute to the effectiveness of insurers' asset-liability management. |
| The Supervisory System | |
| Principle 2. | Supervisory objectives The principal objectives of insurance supervision are clearly defined. |
| Description | <p>FI has the mandate to promote a stable and well-functioning financial system with a good level of consumer protection. It has a duty to notify the government of risks of financial sector instability that may have a negative impact on the functioning of the Swedish financial system. It cooperates with the Riksbank and the Swedish Civil Contingencies Agency under the Crisis Management and Enhanced Preparedness Ordinance. (S2, s3, and s6 of FIO).</p> <p>FI's mandate for consumer protection is shared with the SCA, with the involvement of other government agencies including the National Board for Consumer Complaints (ARN) and the Consumer Ombudsman, who pursue individual consumers' cases. (See ICP 25).</p> <p>While the supervisory objectives for the insurance sector are not explicitly stated in the laws or regulations, FI issues various public reports describing and discussing different issues concerning the financial system, where the objectives for supervision forms an explicit background. The DG and senior staff of FI frequently take part in public seminars and discussions on issues relevant to its mandate.</p> <p>FI's vision is that: a) its efforts prevent financial crises from arising in the market; b) companies and consumers have access to a broad selection of services with clear conditions in an efficient and well-functioning financial market; and c) market participants view FI as a highly competent authority that offers guidance.⁶</p> <p>FI has established an internal process to systematically survey and assess the need for changes to its regulatory mandate. Every autumn, FI determines which areas will be prioritized during the next year. In 2009, FI prioritized the following areas: a) stability and a functioning market; b) consumer protection and ; c) staff members – attractive employer; and d) efficiency—good insight and competition.⁷</p> <p>FI has no responsibility for financial sector development, for which the MoF is primarily responsible. There is a Financial Markets Committee with the objective to promote development of the financial sector⁸. The Committee arranges the Financial Markets Roundtable twice a year, attended by the Governor of the Riksbank, the DG of FI, the DG of the National Debt Office and CEOs from major banks, Nasdaq OMX Nordic and</p> |

⁶ "Who we are and what we do" FI, 2009 (FI website).

⁷ FI's strategic goal is to be the best in the Nordic countries and the Baltic Sea region in areas such as customer satisfaction, processing times and electronic reporting.

⁸ See <http://www.sou.gov.se/fmk/inenglish.htm>.

| | |
|--------------|--|
| | insurers. |
| Assessment | Observed |
| Comments | <p>FI's mandate is to promote a stable and well-functioning financial system with a good level of consumer protection.</p> <p>The authorities are advised to consider adopting explicit supervisory objectives for the insurance sector, including FI's role in protecting policyholders.</p> |
| Principle 3. | <p>Supervisory authority</p> <p>The supervisory authority:</p> <ul style="list-style-type: none"> - has adequate powers, legal protection and financial resources to exercise its functions and powers; - is operationally independent and accountable in the exercise of its functions and powers; - hires, trains and maintains sufficient staff with high professional standards; and - treats confidential information appropriately. |
| Description | <p>FI is a central administrative authority and currently governed by an eight-member board of directors appointed by the Government, headed by the DG.</p> <p>Both FI board members and the DG are appointed by the Government for three years and six years terms, respectively. The DG may be removed from office only for misconduct or disability impairing the performance of FI. The grounds for removing a board member are not specified and thus at the government's discretion. There is also no requirement for the reasons for dismissal of board members and DG to be published.</p> <p>The Swedish parliament is the only public body with the authority to adopt new laws or to amend existing legislation. The specific act authorizes the parliament to issue further regulations in an ordinance. The Instrument of Government stipulates what are the matters that must be decided by law and what can be decided by an ordinance. The government may authorize FI to issue secondary regulations. Laws, ordinances and FI regulations are legally binding.</p> <p>FI can only issue secondary regulations if specifically authorized under the relevant law or primary regulations issued by the government. FI is not empowered to issue secondary regulations unless the issue is specifically mentioned in the primary regulations. This limitation constrains FI's supervisory discretion, i.e., FI has to write to the government to request for legislative amendments. It is for government to decide whether FI may issue legally binding regulatory requirements to address any supervisory gaps.⁹ Consequently, FI was unable to issue secondary regulations on governance and controls to ensure effective risk management by insurers including outsourcing although FI had issued nonbinding guidelines in this area. Similarly, there are no secondary regulations on the fit and proper assessment of senior management of insurers. Both issues were part of the recommendations arising from the 2002 FSAP.</p> <p>The new IBA, which came into effect on April, 1, 2011, provides FI with a wider mandate to issue regulations in the areas of solvency, liquidity and risk management based on broad principles. While this is a positive development that has largely addressed the constraints on FI in issuing secondary regulations, there is scope for the authorities to consider similar</p> |

⁹ Essential criterion 3c) states: "*The legislation grants sufficient powers for the effective discharge of supervisory responsibilities.*"

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| | <p>principle-based approaches for other supervisory issues (Cpt 4 s18 of new IBA).</p> <p>FI may also issue general guidelines to outline its supervisory expectation in certain areas. While these guidelines do not constitute binding law, the majority of supervised entities apply FI's guidelines in practice. FI is unable to take enforcement actions on nonbinding guidelines.</p> <p>In Sweden, public authorities' independent decision-making capacity is enshrined in the Instrument of Government. However, the IBA provides for direct government involvement in the supervisory process and decisions with respect to specific insurers, e.g., approval of license applications, revocation of licenses, issuing warning and imposition of administrative fines. (See ICP 6 and ICP15).</p> <p>FI is funded by the MoF. Supervised entities pay a fee to the central government, on a cost recovery basis. For insurers, the lowest fee is SEK 20,000, except for some minor friendly societies. The fee is calculated on the basis of time spent on supervision. All employees at FI have to report time spent on each category of institutions.¹⁰ Within a category, nonfixed fees are distributed among the institutions in proportion to their balance sheet size. The supervision fees are invoiced to insurers annually.</p> <p>FI imposes a fee for various applications under the IBA. The fees charged are also forwarded to the government. FI shall consult with the Swedish National Financial Management Authority and representatives of industry organizations on issues concerning the fees that it charges. (S7 of FIO).</p> <p>FI's annual budget is decided by the parliament on a proposal from the government. When the state budget is approved by the parliament, the government issues an appropriations letter setting out reporting requirements of FI and specific projects to be carried out by FI. In this context, the appropriations instructions may include instructions regarding the use of parts of the funds for certain specific purposes. Both the state budget and appropriations letters are public documents. From time to time, the MoF may provide updates on its appropriate letter. In 2010, there were three updates initiated by FI. (S7& s8 of the Budget Act).</p> <p>Subject to the above budget framework, FI is independent in performing its regulatory and supervisory functions. In order to achieve its statutory objectives, FI sets its own operational goals and objectives. Except for resources explicitly granted by the government for specific projects, FI is in control of its approved budget, including salaries, training of staff, equipment, travels etc. Total operating costs of FI were SEK257 million for 2008.</p> <p>FI's supervisory resources have grown considerably from 200 employees (on a full time basis) in 2000 to around 300 in 2010. Nonetheless, an independent study commissioned by the Swedish Centre on Commercial Law concluded that FI "has relatively fewer budgetary and staffing resources than do comparable regulatory agencies in other jurisdictions," despite the increase in the absolute size of FI. Moreover, FI's workload has grown in recent years due to the financial crisis, increasing regulatory burdens from EU directives, and an expanded mandate. "There is also evidence that this expanding workload has diverted FI resources away from front-line prudential supervision and that the absolute level of FI personnel assigned to these supervision functions is lower than one would expect for a jurisdiction with a financial services sector as large as Sweden's."¹¹</p> |
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¹⁰ There are five major categories of institutions: 1) banks, savings banks and securities companies; 2) credit institutions; 3) Insurance undertakings, friendly societies; 4) stock exchanges, authorised marketplaces and clearing houses; and 5) Fund management companies.

¹¹ A Report on the Mandate, Structure and Resources of the Swedish Financial Supervisory Authority by Professor
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| | <p>At the time of assessment, there were only 44 insurance supervisors covering legal matters (15), on-site inspection (12) and off-site monitoring (17) of more than 400 insurance entities and more than 1,000 insurance intermediaries.¹² Consequently, FI had to strike difficult compromises in its off-site monitoring and on-site supervision (see ICP 12 and ICP13). The industry raised concerns that the heavy work overload may aggravate staff turnover, making it even more difficult for FI to retain skilled supervisors.</p> <p>FI is accountable for its performance through various public and internal mechanisms. FI presents its operational goals and objectives in its annual plan and publishes its annual report. Its operations are subject to review by the Swedish National Audit Office. The DG appears before the Parliamentary Finance Committee annually. The supervisory measures taken by FI are made public, subject to the obligation to safeguard official secrecy. Decisions by FI may be scrutinized by the administrative courts.¹³</p> <p>FI has an internal audit function and is subject to the Internal Audit Ordinance. The Head of internal auditor of the Riksbank and three internal auditors from the Riksbank work part time at FI. The internal audit arrangement was revised 1 1/2 year ago and an internal audit report on FI's supervisory policy and processes was expected to be ready in April 2011. The current arrangement is not unreasonable given the resource constraints of FI. In the longer term, there is a need for FI to have an adequately resourced internal audit function, to set a good example for the supervised entities.</p> <p>Before the government can draw up a legislative proposal, it must undertake a regulatory impact analysis. The task may be assigned to officials from the ministry concerned, a commission of inquiry or a one-man committee. Inquiry commissions, which operate independently of the government, may include or co-opt experts, public officials and politicians. The reports setting out their conclusions are published in the Swedish Government Official Reports series (Sw. "Statens Offentliga Utredningar, SOU") and referred to the relevant bodies for consultation. A regulatory council (Sw. "Regelrådet") was appointed in 2008 to examine proposed new and amended regulations that could have an impact on businesses.</p> <p>FI also consults with the public before issuing secondary regulations. It often invites reference groups, consisting of representatives from the industry, to comment on its proposed rules. FI shall ensure that supervisory rules and procedures are cost-effective and facilitate compliance by citizens and regulated entities. (S2 and s17 of FIO).</p> <p>All rules, i.e., binding regulations and nonbinding guidelines are published in FI's Regulatory Code and available on FI's website. As from autumn 2009, FI publishes a memorandum containing the rationale for proposed rules and an analysis of the consequences. FI also publishes important decisions regarding licensing or sanctions on its web site.</p> <p>FI is empowered to intervene when an insurer has breached the IBA and other relevant legislation, including taking immediate action to achieve its objectives, especially to protect</p> |
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Howell E. Jackson James S. Reid, Jr., Professor of Law Harvard Law School.

¹² There is a separate unit with 6 staff responsible for assessing and approving internal models of supervised entities and intermediaries are supervised by a separate unit with 7 staff, who are also responsible for a large number of funds.

¹³ For example, FI revoked NGM's license on 1 October 2009. The Stockholm County Administrative Court later ruled that NGM's license to operate a regulated market and trading facility would not be revoked. NGM was issued a warning instead and a financial penalty of SEK 4.5 million to the Government in accordance with FI's proposal. Source: "Who we are and what we do" FI, 2009.

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| | <p>policyholders' interests. (See ICP 15). (Cpt 19, s11 of IBA).</p> <p>While there is no explicit legal protection for FI against lawsuits for actions taken in good faith while discharging their duties, Swedish tort law applies. Under the Damages Act (1972:207), public administrative authorities are liable for damages resulting from negligence in carrying out their duties. Case law has set a high threshold for what constitutes negligence, e.g., an incorrect interpretation of rules is not enough to incur liability; the interpretation must have been distinctly wrong for liability to arise. (Cpt 3, s2 of Damages Act).</p> <p>The Damages Act protects the staff of FI against damages arising from their official duties. FI staff may be held liable for actions taken in the discharge of their duties only on extraordinary grounds. Academic commentaries on this provision have held that there is a presumption that an employee is not liable.</p> <p>Generally, FI has to bear the cost of compensation for damage caused by its employees. However, FI may seek damages from the employee, which is not in line with ICP3 essential criteria q) which states, inter alia: "The supervisory authority and its staff: - are adequately protected against the costs of defending their actions while discharging their duties". The authorities explained that this would apply only in exceptional circumstances, after taking account of the nature of the action that caused damage, the position of the employee, the interests of the person who suffered damage and other relevant circumstances. (Cpt 4, s1 of Damages Act).</p> <p>While case law and academic commentaries may help in interpreting the legal exposures of FI and its staff, the authorities are advised to carefully consider whether the existing level of legal protection is in line with ICP 3 i.e., "The supervisory authority and its staff (should) have the necessary legal protection to protect them against lawsuits for actions taken in good faith while discharging their duties, provided they have not acted illegally." In this regard, a risk-based supervisory approach involves more subjective supervisory judgment and decisions that have greater probability of being challenged, in an increasingly litigious global climate.</p> <p>FI has instituted a set of ethical standards for its employees (including the DG and board members) concerning confidentiality, loans from supervised entities, occupations/activities outside of FI, and dealings in financial instruments, to avoid possible conflicts of interest or other issues that may affect public confidence negatively. There are also policies and procedures dealing with an ex-employee of FI taking up employment in a supervised entity. (S14 of FIO).</p> <p>FI may hire services of external specialists through contracts or outsourcing arrangements. Where supervisory functions are outsourced to third parties, FI assesses their competence, monitors their performance, and ensures their independence from entities under supervision. External specialists are subject to the same confidentiality and code of conduct requirements as the staff of FI.</p> <p>All staff and ex-employees of FI have a legal obligation to respect secrecy provisions and data protection. The Administrative Procedure Act (1986:223) and the Public Access to Information and Secrecy Act¹⁴ (2009:400) (Secrecy Act) provides appropriate safeguards for confidentiality. Information may be disclosed to the public prosecutor, police force, the Riksbank or to another supervisory authority if certain conditions are met. Disclosure to the parliament and the government is mandatory. (See ICP 5).</p> |
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¹⁴ General secrecy provisions regarding financial markets are set out in chapter 30 of the Public Access to Information and Secrecy Act.

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| | Confidential information received from another competent authority in a country within the European Economic Area (EEA) is protected by general secrecy provisions, without the necessity of specific statutory provisions. |
| Assessment | Partly Observed |
| Comments | <p>FI exercises supervision within the state budget framework and MoF's annual appropriation letters and is subject to clear accountability mechanisms. While FI's staff members are competent and qualified, more supervisory resources are required to implement a robust risk-based supervision, supported by appropriate baseline supervision. FI had experienced insufficient powers to issue secondary regulations secondary regulations in a few concrete areas, a concern that has been largely addressed by the new IBA. It is unclear whether the legal protection available to FI and its staff is at the level envisaged by ICP 3. The possibility of government involvement in institution-specific issues may compromise FI's independence.</p> <p>The authorities are advised to:</p> <ol style="list-style-type: none"> a) review the adequacy of supervisory resources for effective implementation of a more robust risk-based supervision; b) consider a more principle-based approach in respect of the scope for FI to issue secondary regulations; c) review the role of the government in institution-specific supervisory issues; d) consider reviewing whether the legal protection available to FI and its staff members are at the level envisaged by ICP3; and e) require publication of the reasons for the removal of board members and the DG of FI. |
| Principle 4. | <p>Supervisory process</p> <p>The supervisory authority conducts its functions in a transparent and accountable manner.</p> |
| Description | <p>FI has issued an internal memorandum on "The process for carrying out operational supervisory activities," which applies to both planned and ad-hoc supervisory activities. The key objectives are to ensure continuous prioritization and planning of work, proper checks and balance, quality assurance and proper documentation.</p> <p>FI's supervisory activities are prioritized in relation to: other supervisory activities, FI's goals and its risk assessment. Quality assurance is achieved through the use of an "Observation Document," structured analysis of data/information to decide on the supervisory options as well as formal closure of cases (by the head of unit or authorized staff). Decisions to impose sanctions are made by the FI's board of directors.</p> <p>For proper accountability and as part of the staff's learning process, a supervisory activity is evaluated after completion. The evaluation is carried out by the staff team and approved by the head of unit.</p> <p>FI's Risk Assessment Process aims to produce a risk profile for use by each supervision department and an aggregate risk profile for FI. The process prioritizes the risks in each area and forms a starting point for discussion on planned supervisory activities and resources. The risk areas are consumers, financial stability and their effects on confidence/efficiency. An evaluation of whether a risk should be included in the risk assessment is carried out on the basis of the likelihood of the unfavorable event occurring and its impact. The aim is to create a tool for prioritization, not a risk profile according to a scale.</p> <p>The supervisory risk assessment covers only more specific risks. Risks of a general or</p> |

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| | <p>continuous nature (e.g., a general increase in credit risks due to a poor economic situation) are not included. However, risks such as low interest rates and mis-selling are covered. It is also recognized that many of FI's activities, e.g., granting of permits, are not appropriate for risk-based prioritization¹⁵.</p> <p>The supervision departments (including insurance) and the Consumer Unit hold two risk assessment meetings per year. After the meetings, the Chief Economist Unit (CEU) summarizes the results, to be presented at the next management meeting. The final joint risk assessment decided by the management meeting will be presented at the next board meeting. Each head of department is responsible for adapting the department's supervisory activities on the basis of FI's joint risk assessment.</p> <p>The CEU has the overall responsibility for macro-economic analysis across all departments or sectors. At the EU-level, FI participates in the macro-prudential oversight council. There is also significant cooperation and discussions with the Riksbank in this area.</p> <p>FI may decide that a sanction shall be applied immediately. While FI's decision on "immediate application" can be appealed, such cases have priority at the courts. Before deciding in such case (to stay the execution) the court examines the issues thoroughly. In one case, it took a substantial time before consumers could benefit from the deposit insurance provided by the state. In this regard, it is advisable to review the impact of judicial review on the ability of FI to make timely interventions to protect policyholders' interests.</p> <p>Once a year, FI publishes "The Risks in the Financial System." The report highlights the risks that FI considers to be the most serious in the financial sector. This includes risks affecting financial stability and consumer protection and risks that affect the functioning of the markets. The risks are detected by a "bottom up" approach starting at individual institutions.</p> <p>The Traffic Light model, a framework for stress testing, is a part of FI's methodology for supervising insurers.¹⁶ The model measures insurers' exposure to key financial, insurance and expense risks. The first step is to calculate an insurer's capital buffer¹⁷ based on the fair value of both assets and liabilities. The insurer is then subjected to a number of stress scenarios, which are prescribed by FI. If the capital buffer is insufficient, the Traffic Light model shows a red light.</p> <p>The Traffic Light model is only one of several supervisory tools used by FI. Since not all financial risks are measured by the model, it is only an approximation of insurers' actual risk profile and needs to be supplemented by other supervision. Thus, the Traffic Light model serves to flag out companies for more in-depth investigations.¹⁸ (See ICP 23).</p> <p>As from 2010, FI prepares quarterly reports on the results of the Traffic Light model. The results are summarized and presented, at an overall industry level, in the Insurance Barometer which is published on FI's website. The Traffic Light model is fine-tuned</p> |
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¹⁵ The Risk Assessment Process, dated 2011-1-27 by FI.

¹⁶ FI started to develop and the traffic light model in 2005, taking account of the lessons learnt from the sharp decline in the stock market during the period 2000–2002, and the subsequent drop in interest rates that weakened insurers' financial strength.

¹⁷ The capital buffer used in the traffic-light model consists of subordinated debt, untaxed reserves and shareholders' equity.

¹⁸ However, the small local non-life insurers and company-linked pension foundations are not included in the traffic light reporting system (Source FI's FAQ—General).

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| | <p>regularly based experience gained from implementation.</p> <p>FI issues various public reports discussing the strengths and weaknesses in the financial system. These include both reports on specific issues on an ad-hoc basis, as well as regular reports, e.g., the annual Risk Report that provides an overview of the financial sector and the Supervisory Report that discusses emerging supervisory and regulatory developments.¹⁹ FI also publishes various statistics based on regular reporting from supervised entities.</p> <p>FI publishes its annual reports, which outline its supervisory activities for the year. The DG appears at least once a year before the Parliamentary Finance Committee. The supervisory measures and the rationale for the measures taken are made public, subject to confidentiality safeguards.</p> <p>Criteria for assessing systemic importance have been developed and their application is presently discussed, e.g., within the Nordic-Baltic supervisory fora.²⁰ At the time of assessment, no insurer is classified as a systematically important financial institution in Sweden.</p> |
| Assessment | Observed |
| Comments | <p>FI adopts a transparent supervisory approach, supported by the Traffic Light model. It has instituted structured processes for prioritization of supervisory activities and risk assessment to ensure consistency in supervisory measures and decisions. FI has clear accountabilities to the parliament, the industry and the public through various channels.</p> <p>The authorities are advised to consider reviewing the impact of judicial review on the ability of FI to make timely interventions to protect policyholders' interests.</p> |
| Principle 5. | <p>Supervisory cooperation and information sharing</p> <p>The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.</p> |
| Description | <p>Domestically, cooperation with Riksbank in respect of the insurance sector is informal. Riksbank has dedicated resources dealing with macro-prudential issues arising from the insurance sector. (S7 of FIO).</p> <p>At the regional level, FI participates actively in policy deliberations at EU and cooperates with relevant foreign authorities in coordinating supervision in line with EU Directives. Its supervisory rules take into consideration the guidelines and recommendations of the European Insurance and Occupational Pensions Authority. In taking supervisory measures, one of the considerations of FI is the impact on the stability of other financial systems in the EEA. (S5 of FIO).</p> <p>FI may disclose information to an authority if the Secrecy Act does not hinder the disclosure. Confidential information shall not be disclosed to a foreign authority or international organization. Secrecy applies to information concerning business or management conditions, if the disclosure of such information may cause damage. Economic or personal information concerning clients of an insurer is also subject to secrecy. (Cpt 8, s3 and cpt 30, s4 of Secrecy Act).</p> <p>There are two exceptions to the Secrecy Act: a) disclosure which takes place in accordance</p> |

¹⁹ The 2010 Supervisory Report describes the lessons learned from the financial crisis as well as general issues regarding consumer protection on the mortgage market, the advice of insurance intermediaries and how the interests of the customer are protected in investment funds and insurers.

²⁰ See http://www.fi.se/upload/43_Utredningar/40_Skrivelser/2010/NB-MoU_public_170810.pdf.

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| | <p>with IBA—FI shall cooperate and exchange information with foreign supervisors as well as the European Commission to the extent implied by Sweden’s membership in the EU; and b) if the information in similar cases would be allowed to be disclosed to a Swedish authority and it would be compatible with Swedish interests to disclose the information. (Cpt 19, s1 of IBA).</p> <p>In addition, FI may provide information to competent home supervisors within the EEA, if the information is required for the supervision of insurers and foreign occupational pension entities. FIBA also empowers FI to cooperate closely with supervisors outside the EEA. (Cpt 3, s2 and cpt6. s1 of FIBA).</p> <p>Within the EEA, there is no requirement of a formal cooperation agreement as a precondition for disclosing information. Information received will, within the existing reciprocity of the EEA, be protected under the Secrecy Act.</p> <p>Confidentiality of information received from a foreign authority is protected if the information has been received in accordance with an agreement with a foreign state or international organization approved by the Riksbak. In this regard, acts related to the Swedish membership of the EU (accession treaties, regulations and directives) are included in the concept of agreement. (Cpt 30, s7 of Secrecy Act).</p> <p>While a formal agreement is not required to exchange information with regard to countries outside EEA, FI cannot guarantee that information received from a foreign supervisor will be protected, in the absence of an agreement. Typically, FI would refuse to provide confidential information to a nonEEA supervisor unless there is an agreement or the supervisor guarantees confidentiality. It may, therefore, be necessary to enter into an agreement with NonEEA supervisor before exchanging information. In practice, FI will work with foreign supervisors to address any confidentiality issues in order to facilitate information exchange.</p> <p>FI has established MoUs with a number of EU member states. Sweden is a signatory of the Helsinki protocol,²¹ the revised Siena protocol²² and Budapest protocol.²³</p> <p>In 2009, FI cooperated with the supervisory authorities in Greece and Portugal in dealing with a Swedish subsidiary of a life insurer in respect of a fraudulent transfer of assets backing the insurer’s technical provisions.</p> <p>Where a Swedish insurer intends to establish a branch, agency or similar establishment in another EEA country, it must notify the FI and provide the necessary information. FI should, within three months of having received the information, provide the competent authority in the host country with a certificate verifying that the insurer concerned has sufficient funds. Insurers must notify the FI and relevant host supervisors of any changes in the information provided subsequent to establishment. (Cpt 2a, s1& s2; cpt1, s8a; cpt 2 s22 to s27and cpt 2a s3& s6 of IBA).</p> <p>Under the IBA and the revised Siena and Helsinki protocols, if FI is the home supervisor, it</p> |
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²¹ A protocol relating to the collaboration of the supervisory authorities of the member states of EU. It concerns the application of Directive 1998/78/EC on the supervision of insurance undertakings which is part of an insurance group.

²² The revised Siena protocol outlines the minimum requirements for the exchange of information between the insurance supervisory authorities within the EEA.

²³ A protocol which provides a framework for the cooperation of competent authorities in the implementation of Directive 2003/41/EC on the activities and supervision of Institutions for Occupational retirement provision that operate cross-border.

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| | <p>is obligated to provide information to host supervisors. As a home supervisor, FI is responsible for the financial supervision of a Swedish insurer. (Cpt 19, s1 of IBA).</p> <p>While there is no legal obligation, FI may informally inform an EEA supervisor of its intended supervisory measures against insurers with branches or cross-border activities in Sweden or within the EEA. FI shall notify the host supervisor when initiating any supervisory measures (including prohibiting or restricting disposal of the assets) against an insurer carrying out business within the EEA. The supervisors in the countries where the assets of the insurer are located shall also be informed. All supervisors within the EEA shall be informed in case the license of an insurer is revoked. (Cpt 19, s11 & s11a of IBA and part IV s6 of the revised Siena protocol).</p> <p>If an EEA insurer breaches Swedish laws and regulations, or is deemed unfit to carry on business in Sweden, FI may require the insurer to take corrective action and inform the home supervisor accordingly. If the insurer does not take the corrective action, FI may suspend the insurer from accepting new business and inform the home supervisor. In urgent cases, FI may take action without informing the home supervisor, in order to prevent further violations. (Cpt 3, s6 of FIBA).</p> <p>FI is prepared to sign the IAIS multilateral MoU, pending approval from the government.</p> <p>FI participates in a number of supervisory colleges established within EU and is the lead supervisor in two insurance groups.²⁴</p> |
| Assessment | Observed |
| Comments | <p>FI is empowered and regularly exchanges information with other supervisors, both within and beyond EU, subject to confidentiality safeguards. Sweden is a signatory of the Helsinki protocol, the revised Siena protocol and Budapest protocol.</p> <p>The authorities are advised to expedite Sweden's accession to the IAIS multilateral MoU.</p> |
| The Supervised Entity | |
| Principle 6. | <p>Licensing</p> <p>An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.</p> |
| Description | <p>The IBA provides that insurance business can only be carried on by a public company limited by shares or a mutual organization,²⁵ which have been licensed by FI. There is no definition of "insurance business" under the IBA although civil courts, in connection with prosecutions for illegal insurance activities, have defined the term. The FIBA defines foreign insurers. (Cpt 1, s1 of IBA and cpt 1 s5 of FIBA).</p> <p>FI shall order a person who carries on insurance business without a license to: a) apply for a license; b) make any arrangements demanded by FI; or c) cease to carry on the business. If the person fails to comply with any order issued by FI he may be liable to pay an administrative fine. (Cpt 19, s12 and cpt 21 s2 of IBA).</p> <p>An EEA insurer may conduct insurance business in Sweden either from a secondary establishment in Sweden or through cross-border operations, subject to certain notification</p> |

²⁴ CEIOPS list of groups for which a College of supervisors is in place.

²⁵ Chapter 2 of the IBA sets out detailed provisions regarding the formation and incorporation of an insurance company limited by shares and a mutual insurer. An insurer who is not formed in accordance with these provisions cannot be granted a licence.

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| | <p>procedures involving the authorities of its home state. The home supervisor shall forward a certificate of solvency to FI. (Cpt 2 s1 to s3 of FIBA).</p> <p>An insurer outside of EEA may be licensed to conduct insurance business in Sweden from an agency or branch office in Sweden. It may also, with the permission of FI, market insurance products in Sweden concerning risks located in Sweden, if the marketing takes place through a licensed insurer and both insurers belong to the same group or have cooperation agreements with each other. (Cpt 4 s1 of FIBA).</p> <p>A nonEU foreign insurer shall, before applying for a license, place securities on deposit equivalent to 300 times the base amount, currently set at SEK 42,800. Agreements between Switzerland and the EU allow Swiss nonlife insurers to establish an agency or a branch in Sweden without a deposit with a Swedish bank. (Cpt 5 s1 of FIBA).</p> <p>Applications for a license are considered by FI. However, “matters of principle or particular importance are examined by the Government.” If an application is to be examined by the government, FI shall submit a statement of opinion to the government. However, the IBA is silent on whether it is up to FI to decide whether or not it should refer an application for license to the government. A license may not be denied on the grounds that no more insurers are needed. (Cpt 2, s3 of IBA and cpt 4 s4 & s5 of FIBA).</p> <p>The new IBA explicitly states that “governmental assessment takes place upon notification of FI.” The related government bill (Sw. proposition), which sets out the explanatory comments on the new IBA, states that “FI shall decide whether an application for a license shall be referred to the government.” In this regard, the factors to be considered by FI in making such a referral should be specified to ensure FI’s operational independence in respect of institution-specific supervisory decisions.</p> <p>As part of the licensing process, FI shall assess the fitness and propriety of a board member, MD and their deputies. They must have sufficient knowledge and experience and be fit and proper to participate in the management of an insurer. A person owning a qualifying holding²⁶ of shares or interests in an insurer must be suitable to exercise a significant influence over the management of an insurer. However, FI is not required to assess the suitability of senior managers who are not board members or MD. (Cpt 2, s3 of IBA).</p> <p>The IBA prescribes qualification requirements for external auditors and actuaries appointed by insurers. (ICP 7).</p> <p>An applicant must submit details regarding the composition of the minimum guarantee fund when applying for a license. The minimum guarantee fund in respect of: a) a direct life insurer and a reinsurer is €3,000,000; and b) a direct nonlife insurer is €2,000,000; or any higher sum determined by the European Commission (currently at €2,300,000 and €3,500,000, respectively). (FFFS 2008:8 and cpt 7 s26 & s27 of IBA).</p> <p>An application for a license shall include a business plan. FI has issued regulations regarding the content of a business plan, which provide that a business plan shall cover at least three years and include information regarding the types of risks or commitments to be insured, details of any reinsurance arrangements, the composition of the minimum guarantee fund and estimated costs for the administration and other functions. The business plan shall also give estimates of premiums or claims, a forecast balance sheet and details regarding financial means to cover insurance obligations and an estimation of the available solvency margin and the required solvency margin. FI would also hold a meeting with</p> |
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²⁶ Defined in Chapter 1, Section 9i of the IBA.

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| | <p>applicants to discuss their views on future business development. (FFFS 2008:8).</p> <p>The home supervisor of an insurer established within the EEA shall be responsible for the financial supervision²⁷ and FI shall be responsible for other aspects of supervision. FI is responsible for supervising any business carried on in Sweden by a nonEEA foreign insurer. (Cpt 3 s1 and cpt 6 s1 of F IBA).</p> <p>A foreign insurer, which intends to carry on insurance business in Sweden, must submit a certificate issued by its home supervisor²⁸ as part of its application for a license. The certificate shall set out the classes of insurance that the foreign insurer is entitled to carry on. The foreign insurer shall provide the name and address of the branch (FFFS 2008:9 and FFFS 2009:3).</p> <p>A direct life insurer may only be combined with “accident” and “sickness” classes of insurance and reinsurance business of these two classes and life insurance. An insurer may not conduct both life and nonlife insurance business. However, composite insurers who carried on insurance business on or before May 2, 1992, are grandfathered. This is subject to the requirement that any direct life and nonlife insurance business that is carried on in the same insurance company must be kept separate. Since 1 January 2000, Swedish life insurers may offer both ULP and traditional policies. (Cpt 1 s3 of IBA and Cpt 1 s14 of FIBA).</p> <p>An insurer may not operate any business other than insurance, unless there are special reasons to do so. A nonEEA insurer that has obtained a license only to conduct reinsurance business may not conduct any business other than reinsurance business and related operations. (Cpt 1 s3 of IBA, cpt 4 s2a of FIBA).</p> <p>There is no explicit provision in the IBA on the imposition of licensing conditions by FI. Restrictions applicable to a license are documented in an insurer’s articles of association, which cannot be altered without prior approval of the FI. The restrictions in the articles of associations are publicly available in the Companies Registration Office. Licensing conditions is a common supervisory tool for supervisors to impose or vary restrictions on licenses, on a timely basis, without having to wait for supervised entities to change their articles of associations. Having all the conditions and restrictions stated in the license also improves transparency as some members of the public may not aware that they have to read the license in conjunction with the insurer’s articles of association.</p> <p>The policy of FI is to issue a licensing decision within five months from the date of the application, provided the application is complete. FI must inform the applicant of the decision without delay. The applicant must be provided with an explanation if the license is refused. In case an application has not been decided within six months, the applicant may apply to the administrative court for a declaration that the matter is unnecessarily delayed. FI must make a decision within six months from the declaration, otherwise the application is deemed to be rejected. (S7 & s20 of the Administrative Procedure Act and cpt 19 s13 of IBA).</p> <p>FI would not issue a license if the application does not fully satisfy all the criteria set out in the IBA. FI may intervene and revoke a license if an insurer no longer satisfies licensing requirements. (Cpt 19 s11 of IBA).</p> <p>In accordance with FI’s internal procedures, it will visit and carry out an on-site</p> |
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²⁷ Financial supervision includes monitoring the solvency, technical provisions and debt service coverage.

²⁸ The certificate from the home supervisor provides details regarding available solvency margin, required solvency margin and the composition of the minimum guarantee fund or equivalent.

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| | <p>investigation of a newly established insurer within one year from the date of the grant of the license. FI would, inter alia, review the register of assets used to cover the technical provisions, the board minutes, the policies and guidelines, financial forecasts and prognosis, etc.</p> |
| Assessment | Largely Observed |
| Comments | <p>The licensing policy, criteria, and procedures are clear and transparent. However, the IBA provides for government involvement in the licensing of specific institutions. Senior managers (except MD) are not subject to fit and proper assessment.</p> <p>The authorities are advised to:</p> <ul style="list-style-type: none"> a) review the government's role in the licensing process under the IBA; b) extend the fit and proper assessment to senior management of insurers; c) consider empowering FI to impose licensing conditions; and d) consider having a definition of insurance business in the IBA. |
| Principle 7. | <p>Suitability of persons</p> <p>The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfill their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.</p> |
| Description | <p>A board member and MD (In this report, these terms include alternate board members and vice MDs) shall have sufficient knowledge and experience and be fit and proper to manage an insurer's operations, both at the licensing stage and on an on-going basis. A natural or legal person, who has or intends to have a qualifying holding in an insurer, must be fit and proper to exercise significant influence over the insurer. (Cpt 2 s3 of IBA).</p> <p>The IBA and the Supplementary Supervision of Financial Conglomerates Act (SSFCA) provide that the management of an insurance holding company or financial conglomerate shall have sufficient knowledge and experience and be fit and proper. (Cpt 7 s9 of IBA and cpt 5 s16 of SSFCA).</p> <p>Any person who is disqualified from carrying on business under the Trading Prohibition Act may not hold office as a board member or MD of an insurer. (Cpt 8 s4 of IBA).</p> <p>FI is not empowered to assess the suitability of senior manager of insurers, who are not appointed as board members or MD. However, FI may order an insurer to take necessary measures if a senior manager is deemed to be unfit. (Cpt 19 s11h of IBA).</p> <p>FI has no power to remove auditors or actuaries, nor do they have to be approved. It is the responsibility of an insurer to ensure that the auditor and actuaries they appoint holds the required qualifications. FI may intervene if an auditor or actuary is deemed unfit or improper.</p> <p>An insurer may only appoint an approved auditor or chartered accountant as its external auditor. (ICP 1) The auditor shall possess appropriate knowledge and experience, taking into consideration the nature and scope of the insurer's operations. (Cpt 10 s3 of IBA).</p> <p>An actuary appointed by an insurer shall have the requisite knowledge and experience having regard of the nature and scope of the insurer's business and satisfy the criteria set out in FFFS 2007:21. These include, inter alia, meeting the education requirements set by the Actuarial Society of Sweden or the International Association of Actuaries and having at least three years practical experience. An actuary qualified outside of Sweden must have sufficient knowledge of Swedish to understand applicable Swedish insurance laws and</p> |

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| | <p>regulations. (Cpt 8 s18 of IBA).</p> <p>FI may decide that a qualifying holder may exercise voting right of no more than 10 percent of the shares held, under circumstances specified under IBA. FI may also order a qualifying holder to reduce its interest to a level below the qualifying holding threshold. (Cpt 3 s2d of IBA).</p> <p>An insurer must apply to FI for approval to appoint a board members or MD. A qualifying holder must also apply for FI's approval in prescribed form. As part of its ownership assessment, FI collaborates with the Swedish National Police Board, the Swedish Companies Registration Office, the Swedish National Tax Board, the Swedish Enforcement Authority and firms offering credit assessments. (FFFS 2009:3).</p> <p>If a person is deemed unfit to hold office as a board member or MD, FI shall order the removal of that person. If an insurer fails to comply the order within three months, FI may revoke its license. Alternatively, FI may decide to remove the person and appoint an alternate until the insurer has appointed a qualified person. (Cpt 19 s11c of IBA).</p> <p>An insurer shall notify the Swedish Companies Registration Office of an appointment or removal of an actuary and auditor. The actuary may also submit the notification. FI will be informed automatically through electronic linkage. (Cpt 8 s18 and cpt 10 s15 of IBA).</p> <p>Pursuant to the Revised Siena Protocol, supervisory authorities within the EEA shall exchange relevant information on board members, MD and shareholders during the licensing stage and on an on-going basis. FI may also request information from nonEEA supervisors.</p> <p>If FI identifies any potential conflict of interests during its due diligence checks of applicants, FI would request the insurer concerned to explain how it mitigates such conflict of interests. The boards of insurers shall adopt guidelines that shall address any potential conflicts of interest. (Cpt7 s30 and cpt 8 s8 of IBA).</p> <p>There is no explicit provision under the IBA that requires an insurer to inform FI in case it becomes aware of any circumstances that may be relevant to the fitness and propriety of any of its key functionaries.</p> <p>FI has started a project to review its policy and processes to assess fitness and propriety of board members, MDs and senior management, to be completed in 2011.</p> |
| Assessment | Largely Observed |
| Comments | <p>FI conducts due diligence checks on board members, MDs as well as qualifying holders of insurers and may remove such persons if they are no longer fit and proper. FI has no power to remove auditors or actuaries, nor do they have to be approved. FI is also not empowered to assess senior managers (who are not MD). FI may, however, take action indirectly by requiring insurers to take corrective action if it finds that such persons do not meet regulatory requirements.</p> <p>The authorities should introduce regulations including:</p> <ul style="list-style-type: none"> a) explicit provision for FI to assess the fitness and propriety of senior management of insurers as well as their auditors and actuaries; and b) to require insurers to notify FI of circumstances that may affect the fitness and propriety of its board members, MD senior managers, auditors and actuaries. |

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| Principle 8. | <p>Changes in control and portfolio transfers</p> <p>The supervisory authority approves or rejects proposals to acquire significant ownership or any other interest in an insurer that results in that person, directly or indirectly, alone or with an associate, exercising control over the insurer.</p> <p>The supervisory authority approves the portfolio transfer or merger of insurance business.</p> |
| Description | <p>“Control” is defined under the ARA. A person is considered to have control over an insurer by holding, directly or indirectly, more than half of the number of votes/shares. A person would also exercise control over an insurer by having the right to appoint or dismiss a majority of the board members of an insurer. (Cpt 1 s4 of ARA).</p> <p>A person is deemed to have a qualifying holding if he, directly or indirectly holds 10 percent or more of the shares or votes or exercises a significant influence over the management of an insurer. (Cpt 1 s9i of IBA).</p> <p>A person who intends to acquire a qualifying holding of an insurer must obtain prior approval from FI. The same applies to acquisitions that cause a qualifying holding to increase to cross the threshold of 20, 30 or 50 percent of an insurer’s share capital. Disposal of qualifying holding must also be notified to FI.</p> <p>An insurer shall, on an annual basis, report the names of shareholders with qualifying holdings and the size of their respective holdings to FI. An insurer is also obliged to notify FI immediately when it becomes aware of any transfer of shares that would require the approval of FI. An insurer must immediately notify FI if it becomes aware that it is a target for an acquisition or has close links with another entity. (Cpt3 s2, s2a & s2b of IBA).</p> <p>Any acquisition of a direct or indirect qualifying holding is subject to FI’s prior approval regardless of whether the applicant is a resident or established in Sweden. FI consults the relevant home supervisors, where applicable. If there is no response within three months, FI assumes that there is no objection.</p> <p>The assessment of acquisition of qualifying holdings of or control over an insurer is based on the same criteria for evaluating licensing applications, comprising both financial and nonfinancial requirements.</p> <p>FI shall not approve a proposed acquisition if it would result in a group structure that could hinder effective supervision of the insurer. Where an insurer is part of a group structure that could hinder effective supervision, FI may order the relevant shareholder to dispose the shareholdings. A corporate qualifying holder must notify FI of any changes in its management. (Cpt3 s2, s2f & s2c of IBA).</p> <p>FI rejects an application if the ownership structure is deemed prejudicial to policyholders’ interests. FI assesses the ownership structure before and after the proposed acquisition, including information on beneficial owners or owners who may exercise a significant influence.</p> <p>An insurer shall provide any additional information regarding its business, including information regarding its shareholders or any other person exercising control, if requested to do so by FI. (Cpt19 s3 of IBA).</p> <p>A Swedish insurer and a foreign insurer domiciled outside the EEA may, with the prior approval of FI, transfer all or any part of an insurance portfolio to another insurer. The transferee must be a Swedish insurer or a foreign insurer authorized to carry on business in Sweden or a foreign insurer established within the EEA. (Cpt15 s1 of IBA and cpt9 s4 tos8 of FIBA).</p> <p>FI shall approve a portfolio transfer if: the rights of the policyholders would not be</p> |

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| | <p>adversely affected; the transferee has an adequate available solvency margin after the transaction; and the competent supervisor in the country where the risks are located or where the commitments will be discharged has consented or not objected to the portfolio transfer. (Cpt15 s3 & s4 of IBA).</p> <p>An insurer domiciled within the EEA may, transfer all or any part of an insurance portfolio in Sweden, to a Swedish or foreign insurer. The relevant home supervisor shall consult FI regarding the proposed portfolio transfer. FI shall consent to the transfer if the rights of the policyholders are not adversely affected and the transferee has adequate solvency after the transaction. (Cpt9 s2 & s3 of FIBA).</p> <p>During 2009, FI decided to disallow the conversion of a mutual insurer into a corporate entity. FI concluded that the regulations governing conversions must be clarified in order to increase the ability of policyholders to influence the conversion. In reviewing whether the rights of policyholders have not been compromised, FI critically evaluates the assumptions made about long-term sustainability of the new entity.</p> |
| Assessment | Observed |
| Comments | The regulatory requirements for acquisition and changes in control as well portfolio transfer are clearly set out under the IBA and FIBA. FI will not approve a portfolio transfer unless it is satisfied that the rights of the policyholders would not be adversely affected. |
| Principle 9. | <p>Corporate governance</p> <p>The corporate governance framework recognizes and protects rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards.</p> |
| Description | <p>Sweden adopts a unitary board of directors (board) system. The IBA requires that at least half of the board members of insurers are nonexecutive directors. There is no definition of independent directors and no requirement on the independence of directors. It is generally recognized that effective independent directors contribute to better checks-and-balance as well as objectivity to board decisions.</p> <p>The IBA sets out provisions regarding the management of an insurer. However, the term “senior management” is not defined under Swedish laws. Thus, there is no provision regarding the responsibilities of senior managers who are not appointed as MD.</p> <p>FI has issued guidelines on corporate governance of financial undertakings, including insurers. The guidelines provide high-level principles for corporate governance, internal controls, risk management, compliance, internal audit and outsourcing arrangements. (Cpt8 of IBA and FFFS2005:1).</p> <p>FI examines insurers’ corporate governance as part of its on-going supervision and is empowered to intervene²⁹ if an insurer’s corporate governance is inadequate, taking into account the nature and scale of its business. (Cpt19 s1 and s11 of IBA).</p> <p>The IBA sets out the respective roles and accountabilities of the board and MD of an insurer. The MD cannot be appointed chairman of the board. The board shall adopt strategies and objectives for the insurer including guidelines on: technical provisions, investment policy and handling of conflicts of interest. The board shall ensure that the</p> |

²⁹ In 2009, FI issued a reprimand against a Swedish non-life insurer and imposed a fine of SEK 5 million. FI had found, *inter alia*, that its corporate governance and internal controls were inadequate. The management structure and accountabilities were complex and ill-defined. In addition, it had failed to submit quarterly and annual reports on an accurate and timely basis. The insurer took remedial action, as required by FI.

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| | <p>guidelines and policies are complied with and kept up-to-date. (Cpt8 s7, s8 & s10 of IBA and cpt2 s1 & s3 of FFFS 2005:1).</p> <p>The board and the MD are expected to ensure that an insurer establishes and implements adequate risk management framework and internal controls. (ICP 10 and ICP 18) There should also be an effective compliance function, independent internal audit function and appropriate checks and balance. The compliance function should have clear terms of reference and report either to the board or the MD. (Cpt5 s2, s4 & s5 and cpt6 s1 to s3 of FFFS 2005:1).</p> <p>The board and the MD are ultimately responsible for an insurer's business, including any operations outsourced to any third party. (Cpt7 s1 of FFFS 2005:1).</p> <p>FI has issued guidelines on ethical conduct of supervised entities requiring insurers to adopt code of conduct on accepted business standards and ethical behavior of employees. FI's corporate governance guidelines cover dealings with potential conflict of interests and undue preferential treatment of shareholder, policyholder or beneficiary. The board is required to adopt policies that address conflicts of interest and fair treatment of customers and reviews these policies regularly. (FFFS 1998:22, cpt 7s30 and cpt8, s8 s12 & s15 of IBA).</p> <p>Board members of insurers must meet fit and proper criteria (ICP 7). In addition, the MD and at least half the board members shall be residents of the EEA, unless approved by FI. FI may approve special cases. "Matters of principle or particular importance," however, are examined by the Government." A person who has been an auditor of a listed company or a lead auditor may not be a board member, MD or other senior executive in an insurer, within two years of withdrawal from the audit assignment. The board shall appoint the MD and other senior management. (Cpt8, s4a of IBA).</p> <p>The general meeting of an insurer shall decide on the remuneration of the board. FI has also issued general guidelines on remuneration policies of insurers. The board should establish a remuneration policy that promotes effective risk management and does not encourage excessive risk-taking, which is subject to regular review. The remuneration policy should be designed so that remuneration to individual employees does not counteract the firm's long-term interests and take account of qualitative criteria such as compliance with internal rules. For an employee whose actions can have a material impact on the risk exposure of an insurer, at least 60 percent of the variable remuneration should be deferred for at least three years with a possibility of claw back.³⁰ (Cpt8 s1, s3, s9 of IBA, FFFS2009:6 and FFFS2009:7).</p> <p>The MD shall ensure that the board receives objective, comprehensive and relevant information to make well-informed decisions and shall keep the board informed on pertinent developments. (Cpt 2 s4 of FFFS 2005).</p> <p>FI may, when deemed necessary, convene a board meeting. A representative of FI may attend any board meetings convened by FI. The board and the MD are required to make assets, accounting records and other documents available for inspection by FI. (Cpt19 s8 & s9 of IBA).</p> <p>Under the IBA, there is no specific provision regarding the establishment of board committees, except that listed insurers are expected to establish independent audit committees. However, none of the licensed insurers are listed companies. FI's remuneration guidelines expects insurer to establish an independent remuneration</p> |
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³⁰ An insurer should endeavour to ensure that employees do not use risk hedging strategies or insurances to mitigate the effects of an adjustment/cancellation of a deferred payment.

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| | <p>committee or appoint a nonexecutive director to be responsible for preparing significant remuneration decisions and monitoring the application of the remuneration policy. (Cpt2 s3 of FFFS_2009:6).</p> <p>There is scope for enhancing the effectiveness of the board through the establishment of board committees such as audit committees, risk management committee or nomination committee, taking into consideration the nature, scale and complexity of an insurer's operation, regardless of whether an insurer is listed on a regulated market. In addition, insurers should establish policies and procedures to assess the effective of their boards and board members.</p> <p>While insurers must appoint at least one actuary, there is no explicit provision regarding the rights of an actuary to have direct access to the board or board committees. An actuary also does not have specific duty to report to the board on a timely basis. In practice, most actuaries have direct access to the board.</p> <p>FI has started a project to consider the approach to assess the board members of insurers.</p> |
| Assessment | Largely Observed |
| Comments | <p>The corporate governance framework for insurers is broadly in line with ICP 9. FI examines insurers' corporate governance practices during its on-site inspections and has taken necessary supervisory measures, where appropriate. The authorities are advised to strengthen the corporate governance regime for insurers to reflect international standards and promote the objectivity and effectiveness of the board of directors.</p> <p>The authorities are advised to establish clear corporate governance standards for insurers on:</p> <ul style="list-style-type: none"> a) The minimum level of independent directors and criteria for independence; b) Establishment of relevant board committees, taking into account the nature, scale and complexity of their operations; c) Policies and procedures to assess the effectiveness of their boards; d) The role and accountabilities of senior managers; and e) Providing actuaries with direct access to the board and board committee on a timely basis. |
| Principle 10. | <p>Internal controls</p> <p>The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.</p> |
| Description | <p>The IBA holds the board remains ultimately responsible for the organization and management of an insurer. FI's guidelines on corporate governance outline FI's expectation of insurers in establishing and maintaining sound internal controls. (Cpt8 s7 of IBA and cpt 2 s1 and cpt 3 of FFFs2005:1).</p> <p>An insurer's framework for internal controls should include arrangements for delegating authority and responsibility, and the segregation of duties. (Cpt 3 s4 of FFFs2005:1).</p> <p>The board should provide suitable prudential oversight and establish an effective risk management system that addresses an insurer's key risk exposures. In this regard, the board is expected to establish an independent risk management function. (ICP 18) (Cpt 4 s3 of FFFs2005:1).</p> |

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| | <p>The board is expected to establish an independent internal audit function that has sufficient resources and staff that are suitably trained and have relevant experience. The head of the internal audit function should attend board meetings where any reports prepared by internal audit are considered. However, there is no express provision stating that the internal audit function shall have unfettered access to all functions of an insurer. There is also no explicit requirement that the internal audit function has status within an insurer to ensure that senior management reacts to and acts upon its recommendation. (Cpt6 s1 of FFFs2005:1).</p> <p>Insurers should have a compliance function responsible for ensuring compliance with relevant laws and regulations. The external auditor of an insurer shall, in accordance with generally accepted auditing principles, audit its annual accounts and records including assessment of internal controls. (Cpt5 s3 of FFFs2005:1 and cpt 10 s8 of IBA).</p> <p>An insurer shall ensure that there are satisfactory controls over its accounting system and management of funds. Internal controls must be in place for: safeguarding assets; ensuring proper segregation of duties; and controlling that the accounts are accurate and complete. (Cpt 3 s4 of FFFS2005:1).</p> <p>FI has issued guidelines on ethical conduct of supervised entities. In particular, the board shall issue a code of conduct regarding acceptable business standards and ethical behavior of employees. The code of conduct should be regularly reviewed and updated. (S2 of FFFS 1998:22).</p> <p>An insurer may outsource parts of its operations to an affiliate or another third party. However, the board and the MD remain responsible the outsourced activities. An insurer who intends to outsource a material part of its business or any function for internal control should notify FI. Proper internal rules on outsourcing must be in place regarding: managing outsourcing risks; protection of confidential information; performance assessment; supervision by FI; and the terms and termination of the arrangements (e.g., level of service, rights and obligations of the parties). (Cpt 7 s1, s2 & s4 of FFFS 2005:1).</p> <p>As part of its supervision, FI assesses the adequacy of insurers' internal controls, taking into account the scale and nature of their businesses. FI examines policies and procedures submitted by insurers, review board minutes and interview relevant board members, senior managers and control functions as well as assess outsourcing arrangements. FI may request an insurer to provide reports of the internal audit function.</p> <p>Where FI finds an insurer's internal controls to be inadequate, it would require the insurer to justify any departure from its guidelines and recommend measures to strengthen internal controls, where appropriate. FI may take further supervisory actions if the insurer fails to remedy deficiencies noted and has done so.³¹ (Cpt19 s11 of IBA).</p> |
| Assessment | Observed |
| Comments | <p>FI supervises and assesses insurers' internal controls in line with the requirements under the IBA and its corporate governance guidelines. It is empowered and has taken supervisory measures against insurers for deficiencies in internal controls.</p> <p>To strengthen the checks and balances of insurers' operations, FI is advised to consider adopting explicit provisions to ensure that internal auditors have unfettered access to the board and senior management as well as appropriate status to ensure that senior</p> |

³¹ FI found a non-life mutual insurer had committed a breach of applicable laws and regulations, including accounting procedures and the submission of quarterly and annual reports to FI. FI issued a warning and imposed a fine of SEK 2,000,000.

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| | management acts upon its recommendation. |
| Ongoing Supervision | |
| Principle 11. | <p>Market analysis</p> <p>Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws the conclusions and takes action as appropriate.</p> |
| Description | <p>A critical component of FI's supervisory process is the Risk Assessment Process where key risks in the financial markets are identified and graded. The results of the risk assessment are one of the factors for prioritizing FI's supervisory activities. (ICP4)</p> <p>FI also conducts regular analysis of market conditions by analyzing reports and information received from insurers, supplemented by the Traffic Light model for early detection of potential vulnerabilities.³²</p> <p>FI holds four "analysis meetings" each year to analyze the financial condition of each insurer. At these meetings the state of the economy and general market trends would be identified and discussed in relation to the specific circumstances of each insurer.</p> <p>FI also perform thematic analyses on an ad-hoc basis. For example, FI has recently analyzed the capacity of traditional life insurers in coping with a reduction of the discount rate used for estimating technical provisions. In addition, FI participate actively in the analysis by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) on the market risks exposures for insurers within the EEA.</p> <p>FI publishes a report "the Insurance Barometer" twice a year, which summaries the status of insurers' Traffic Light results and solvency development. The report is available to the public. FI's "The Risk in the Financial System" for 2010 highlighted risks associated with the sensitivity of life insurers to an extended period of low interest rates.</p> <p>The Swedish Insurance Federation publishes quarterly statistics regarding the insurance sector. The bulk of the information is based on regulatory reports submitted to FI. Statistics Sweden, a governmental agency that produces statistics, also publishes data regarding the insurance sector.</p> <p>FI requires insurers to report on the effect of market-wide events from time to time. For example, FI requested insurers to report on the effects of "Hurricane Gudrun"³³ which hit parts of Sweden in February 2005. In 2010, insurers reported their exposures to certain banks and countries, which had been severely affected by the financial crisis.</p> <p>FI does not analyze developments outside the Swedish market on a regular basis. FI also does not analyze the level of foreign risks accepted by nonlife insurers by lines of business or geographical location to better understand their international exposures. Nonetheless, FI conducts ad hoc analyses of political risks, tax environment, market trends etc in relevant jurisdictions, when found important, as part its supervision of insurance groups.</p> |
| Assessment | Largely Observed |
| Comments | FI has a systematic and transparent approach to market analysis to identify, assess and |

³² In 2007 a friendly society, received a red light in the Traffic Light model. FI's investigation revealed that the friendly society had incurred borrowings in order to purchase real estate, which is unlawful. FI ordered the friendly society to take corrective measures.

³³ See <http://www.thelocal.se/823/20050109/>

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| | <p>mitigate risks to the insurance sector. The publication of insurance and other market statistics facilitate insurers' understanding of systemic developments that have implications for their operations. Due to limited resources, FI does not analyze developments outside the Swedish market on a regular basis. It would perform such analysis, when found important, as part of its group supervision.</p> <p>It is important that FI enhance its capacity and resources to analyze the developments outside the Swedish market on a regular basis including Swedish insurers' exposures to foreign risks.</p> |
| Principle 12. | <p>Reporting to supervisors and off-site monitoring</p> <p>The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.</p> |
| Description | <p>All insurers carrying on business in Sweden are required to report the following information and data, in accordance with regulations/guidelines issued by FI which set out the scope, content and frequency of the regulatory reports:</p> <ul style="list-style-type: none"> • Solvency of foreign insurers in respect of the business in Sweden • Available/required solvency margin of insurers which are part of a group • Material business matters and agreements within an insurance group • Governance and control • Reporting by financial conglomerates • Quarterly statements by Swedish nonlife insurers • Quarterly statements by Swedish life insurers • Foreign insurers' operations in Sweden • Solvency of foreign insurers in respect of the business in Sweden • Annual accounts of Swedish nonlife insurers, Swedish minor nonlife insurers, Swedish minor nonlife insurers and Swedish life insurers • Quarterly results of the Traffic Light model (except minor insurers). (FFFS1998:37, FFS2002:4, FFS2002:10; FFS2005:1, FFS2006:6. FFS2008:15, FFS2008:16; FFS2008:17; FFS2008:18, FFS2008:19, FFS2008:20, FFS2008:21 and FFS2008:22). <p>FI may require insurers to forward any information necessary for supervision, e.g., credit ratings of reinsurers used by selected insurers on an annual basis. The selection is based on premium retention level. Due to resource constraints, FI did not examine insurers' reinsurance arrangements, beyond the credit ratings, in the last 2 years. FI may also require monthly reports to monitor solvency position of a particular insurer if its available solvency margin is close the required solvency margin. (Cpt 19 s1 of IBA).</p> <p>There is no requirement that regulatory reports submitted to FI must be audited. However, the MD and the actuary shall certify that the information set out in the report is true and accurate. Much of the information would be based on insurers' annual reports, which are audited. The annual reports, including the auditor's opinion, are filed at the Swedish Companies Registration Office and are available to the public. FI would, if necessary, reconcile the details set out in any submitted report with the information contained in the annual reports. This is typically done for insurers with potential solvency issues or other regulatory concerns. (Cpt 10 s8 of IBA).</p> <p>FI has abolished the appointed auditor requirement in 2008 as it found that whistle blowing provisions applicable to auditors under the IBA were not operating effectively. It is working towards improving collaboration with the auditing profession.</p> <p>The reporting requirements would differ between types of insurers, i.e., life or nonlife, foreign insurers, minor local insurers, etc. However, there is no distortion in favor of or</p> |

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| | <p>against any particular form of enterprise.</p> <p>Insurers submit information regarding financial condition and performance on a solo basis. Where an insurer is part of an insurance group, it shall submit consolidated accounts for the group on an annual basis. Financial conglomerates shall report, on an annual basis, information on available solvency and the required solvency margin. (Cpt 7 s6 of IBA, FFFS2006:6).</p> <p>The principles and norms regarding accounting and consolidation techniques are set out in the ARIUA and FFFS 2008:26. Insurers should apply acceptable international reporting standards, unless otherwise required by any laws or regulations. (Cpt 5 s1 of ARIUA. Cpt 5 s1 1a of ARA and Appendix 1 of FFFS2008:26).</p> <p>Insurers are not required to report off-balance sheet exposures to FI on a routine basis although work on this area is in progress. However, insurers report typically report off-balance sheet exposure in their annual reports. FI may also gather such information as part of its supervision, on an ad hoc basis. (See ICP 22).</p> <p>An insurer, who intends to outsource a material part of its business or any key functions to an affiliate or any other third party, should report this to FI in advance. There is no definition of “material” or “key functions” and reporting is not mandatory because this is a supervisory expectation under nonbinding FI guidelines. (Cpt 7 s4 of FFFS2005:1).</p> <p>The MD and the actuary shall certify that the information set out in an insurer’s reports is true and accurate. FI may impose an administrative fine for failure to submit regulatory reports in time. If an insurer has submitted inaccurate information, FI may order the insurer or its board to correct the information. If the insurer fails to comply with the order it may be liable to pay an administrative fine. Submitting inaccurate or misleading information to FI is a breach punishable by fine or a term of imprisonment not exceeding one year. (Cpt 19 s11 & s11f and cpt 21 s1of IBA).</p> <p>Solvency reports and quarterly Traffic Light results are reviewed based on a “Fast Track” approach, i.e., the relevant staff would prepare a quick analysis or memo to flag out exceptions for further review. On a quarterly basis, FI prepares an internal report, setting out details of insurers where there are potent regulatory concerns. The internal report also describes general trends or changes in the market and is not public information.</p> <p>Internal analysis meetings are held to discuss individual insurers whose regulatory reports suggest potential issues. Specific themes or trend affecting a number of insurers may also be discussed.</p> <p>FI regularly review and, where appropriate, amend the provisions regarding reporting requirements of insurers in accordance with its internal procedures.</p> <p>Insurers must promptly report any events of material significance, such as significant financial loss to customers or an event which could cause reputation damage. (S3 of FFFS 2005:12).</p> |
| Assessment | Largely Observed |
| Comments | <p>FI has issued regulations and guidelines setting out the scope, content and frequency of reports by different types of insurers. It is also empowered to require additional reports necessary for effective supervision or timely intervention. As the regulatory returns are not audited, FI has to reconcile the returns with insurers’ audited annual reports. Insurers are not required to report outsourcing arrangements as well as derivatives and off-balance sheet transaction to FI regularly. FI does not have adequate resources to conduct adequate off-site monitoring for all licensed insurers.</p> |

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| | <p>FI is advised to:</p> <ul style="list-style-type: none"> a) formulate a more robust risk-based supervision approach based on both the impact and probability of failure, supported by appropriate baseline supervision; b) review the adequacy of resources for off-site monitoring; c) establish clear regulatory requirement for insurers to report their reinsurance strategy and program, outsourcing arrangements and off-balance sheet exposures including derivatives transactions; and d) require annual regulatory returns of insurers to be audited. |
| Principle 13. | <p>On-site inspection</p> <p>The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.</p> |
| Description | <p>FI is empowered to conduct on-site inspections with unfettered access to information. The board and the MD of insurers are responsible for holding any funds, assets, accounting records and other documents available for inspection by FI. The scope of FI's inspection may be extended to: an undertaking with the sole purpose to assist the insurer; an undertaking that the insurer controls; and claims adjusters and other similar bodies (Sw. skaderegleringsnämnd). (Cpt 19, s9 & s10 of IBA).</p> <p>FI may conduct inspections on either a full scale, or on a focused basis investigating areas of specific concern.</p> <p>However, due to inadequate resources, FI had been unable to formulate general plan for inspection and concentrated its resources only on the top 12 to 13 insurers. FI typically reviews an insurer's operational and legal structure, board minutes and minutes of the general meeting, performance of senior management, reporting lines, delegation of authority, operations manuals, policies to deal with conflicts of interest, risk management and control, insurance activities, internal and external audit reports and may meet internal and external auditors. After an inspection, FI issues a letter to the insurers setting out the findings. The insurer is expected to comment on the findings or suggest appropriate corrective measures. (S17 of the Administrative Procedure Act).</p> <p>Feedback from insurers suggests that most of the inspections involved fact-finding visits after FI had reviewed the documentation it had requested insurers to submit ahead of the visit. During the visit, meetings are held with senior management, who may make presentation on pertinent issues. It is not a routine inspection procedure to assess whether insurers' policies, procedures and controls are effectively implemented.</p> <p>FI started to implement a 5-year inspection cycle in 2011 and completed 12 full-scale inspections of smaller insurers in the first quarter. The planned inspection will provide inputs to FI's formulation of an appropriate baseline supervisory stance, going forward.</p> <p>As part of its inspection process, FI monitors whether insurers take the necessary remedial actions, either immediately or on an annual basis. Where the corrective action would require far-reaching changes to the business or the organization, FI may permit the insurer to take corrective action within a specified period of time. In such cases, FI conducts a follow-up investigation to check that the required measures are implemented³⁴.</p> <p>Upon notification by an insurer on its outsourcing of a material part of its business or any</p> |

³⁴ In May 2009, FI issued a sanction against a Swedish non-life insurer for inadequacies in corporate governance, internal controls, and reporting to FI. This was followed up by an on-site inspection during 2010.

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| | <p>function, FI would ensure that the outsourcing arrangement provides for inspection by FI. FI may take action against an insurer if it has outsourced functions without providing for the supervision of FI.</p> <p>An EU home supervisor may, after notifying FI, inspect a secondary establishment of an EU insurer in Sweden. FI is entitled to participate in the inspection. FI supervises Swedish insurers' branches in the EEA, within the resources available under the current priorities. (Cpt 3, s5 of FIBA).</p> |
| Assessment | Largely Observed |
| Comments | <p>FI conducts both full scale and focused inspections. It has also conducted joint inspections with foreign supervisors. It does not have adequate resources to implement baseline supervision for a large number of supervised insurers and intermediaries, as part of its risk-based supervision. Effective inspection should go beyond a checklist approach in order to better understand insurers' operations and risks.</p> <p>FI is advised to improve the robustness of on-site inspection and ensure that the planned baseline onsite supervisory program is supported by adequate supervisory resources.</p> |
| Principle 14. | <p>Preventive and Corrective Measures</p> <p>The supervisory authority takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p> |
| Description | <p>FI can take a range of preventive and corrective actions if an insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements.</p> <p>As an initial measure, FI may enter into discussions with the insurer to find an acceptable solution or issue a report setting out the specific areas of concern. Where appropriate, FI may take enforcement actions and impose sanctions under the IBA or FIBA. (ICP 15).</p> <p>If an insurer's situation becomes worse or if it ignores FI's informal requests to take remedial measures, FI has a wide range of powers to adopt a progressive escalation of action or remedial measures:</p> <p>Swedish insurers</p> <ul style="list-style-type: none"> • Calling a board meeting or an extraordinary general meeting and attend such meetings. (Cpt 19 s8 &s9 of IBA). • Intervention against a qualifying holder - FI may decide that a qualifying holder may only vote for shares at a general meeting, which represents less than 10 percent of the total number of shares. FI may also request the court to appoint a suitable person to represent the shares or order the qualifying holder to dispose its interest below the threshold for a qualifying holding. (Cpt 3 s2, s2e of IBA). • Ordering an insurer or a financial conglomerate to take appropriate action against an officer deemed unfit to be involved in the management. (Cpt 19 s11h of IBA and Cpt s2 of SSFCA). • Replacement of board members or the MD of an insurer, an insurance holding company or a financial conglomerate. (Cpt 19 s11c &s11h of IBA and Cpt 2 s2 of SSFCA) • Imposing a fine not exceeding SEK 100,000 for late filing. (Cpt 19 s11f of IBA and cpt7 s4 of SSFCA). • Issue a reprimand, subject to the government's review. (Cpt 19 s11 of IBA). <p>Foreign insurers within the EEA</p> <ul style="list-style-type: none"> • Order a foreign insurer to remedy a breach of FIBA or related regulations. (Cpt 3 s6 of |

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| | <p>FIBA).</p> <ul style="list-style-type: none"> Limiting a foreign insurer’s right of disposal of assets in Sweden if its home supervisor adopts similar measures. (Cpt 3 s7 of FIBA). <p>Foreign insurers outside the EEA</p> <ul style="list-style-type: none"> Issue a reprimand. (Cpt 7 s8 of FIBA). Order the foreign insurer to take remedial action. (Cpt 6 s8 of FIBA). Prohibits a foreign insurer from disposing its assets in Sweden. (Cpt 6 s9 & s11 of FIBA). <p>If an order by FI has not been followed within the stipulated period and the circumstance has not improved, FI “shall, in cases of principle importance or of particular significance, notify the Government of the situation.” (Cpt 19 s11 of IBA).</p> <p>FI has the capacity and standing to communicate with insurers and generally do so to ensure that relatively minor remedial action is taken. (Decision by the Chancellor of Justice).</p> <p>The IBA and FIBA require insurers to prepare an acceptable plan to resolve the issues raised with an acceptable timetable:</p> <ul style="list-style-type: none"> If the interests of the policyholders or other beneficiaries are at risk, a financial recovery plan (Sw. finansiell saneringsplan) must be submitted for FI’s approval. (Cpt19 s11 of IBA and cpt6 s9 of FIBA). If the available solvency margin is less than the required solvency margin, a plan for the restoration of a sound financial position (Sw. plan för att återställa en tillfredsställande finansiell ställning) is required for FI’s approval. (Cpt19 s11 of IBA and cpt6 s9 of FIBA). a plan for prompt restoration of the available solvency margin, if the available solvency margin is less than the minimum guarantee fund. (Cpt5 s12 to s14). <p>FI ensures that insurers comply with applicable laws and regulations and act in a manner that is not prejudicial to policyholders’ interests through its on-going on-site and off-site supervision. FI may also act upon information received from other financial institutions, employees of insurers, the media, other public authorities or other foreign supervisors or the public. These are preventive measures that deter breaches of insurance laws and regulations by insurers.</p> |
| Assessment | Observed |
| Comments | FI is empowered to take a progressive escalation of preventive measures to address emerging supervisory concerns. |
| Principle 15. | <p>Enforcement or sanctions</p> <p>The supervisory authority enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p> |
| Description | <p>For more serious infringements or where insurers ignore FI’s orders or the situation is deteriorating, FI is empowered to take wide range of enforcement actions or to impose sanctions, including:</p> <ul style="list-style-type: none"> Ordering an insurer to adopt any particular measures or refrain or desist from taking any specific actions. (Cpt 21, s2 of IBA). Revocation of license. Questions about license forfeiture are considered by FI. “Matters of principle or special importance, however, are examined by the |

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| | <p>Government. A review by the Government will take place upon notice from FI.” (Cpt 6 s13 of FIBA and cpt 19, s11 of IBA).</p> <ul style="list-style-type: none"> • Imposing an administrative fine up to SEK 50 millions. However, the fine may not exceed 10 percent of the insurer’s turnover. “If the Government decides in favor of a warning, it may submit the question to FI to decide whether an administrative fine shall be paid” (Cpt 19, s11d of IBA, cpt10 s5 of FIBA and cpt7 s9 of SSFCA). • Fine or imprisonment not exceeding one year for deliberate or negligent act such as providing inaccurate or misleading information. (Cpt 21 s1 & s1a of IBA and cpt 10 s6 of FIBA). • Limiting or prohibiting the free disposal of an insurer’s assets in Sweden and deciding on how the business shall be conducted.³⁵ • Prohibiting a foreign insurer from marketing its products and entering into new insurance agreements.³⁶ <p>FI has established a sanctions procedure regarding reprimands, warnings and withdrawal of licenses, including ensuring that external communications are coordinated, timely and consistent. As there is no dedicated enforcement section, insurance supervisors deal with the investigations that lead to referrals to the appropriate agencies.</p> <p>Generally, FI’s range of sanction powers has expanded considerably in recent years, especially in the imposition of fines. FI may refrain from imposing any sanctions if: the infringement is trivial or excusable; or the insurer remedies the breach; or any other authority takes remedial action against the insurer and those sanctions are deemed sufficient. (Cpt 19 s10b of IBA).</p> <p>A formal sanction decision will normally be announced publicly on FI’s website and presented in FI’s newsletter. Decisions are also presented in the minutes of the FI’s Board.</p> <p>FI cannot order a compulsory transfer of insurance portfolios from a failing insurer to another insurer, but may indirectly provide assistance through informal negotiations during compulsory liquidation (ICP 16). FI may also indirectly arrange for the transfer of the insurance portfolio.</p> <p>If the license of a foreign life insurer outside EEA is revoked by FI, its business shall be administered by FI in order to protect the interests of the policyholders. The insurance portfolio may be transferred to a Swedish life insurer or a foreign life insurer in Sweden or within the EEA. (Cpt 7 s4 & s5 of FIBA).</p> <p>FI can require insurers to inject capital (ICP 14) and may restrict or suspend dividends or other payments to shareholders as part of its power to restrict disposal of assets under specified circumstances. (Cpt 19 s11 of IBA).</p> <p>While listed insurers are allowed to purchase their own shares, other insurers are prohibited from doing so except in specified situations. (Cpt 6 s3& s4 of IBA).</p> <p>FI may, if an insurer is part of an insurance group or a conglomerate, intervene if the insurer jeopardizes the financial situation of the insurance group or conglomerate.</p> |
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³⁵ Arising from an inspection of a Swedish life insurer in 2009, FI ordered the insurer to submit a financial recovery plan. The insurer stated in the plan that its assets would be returned on or before a specified date. FI deemed the plan to be insufficient and decided to prohibit the insurer from disposing its assets without the consent of FI until the specified date.

³⁶ Before declaring that the licence of the insurer above was revoked, FI issued a decision preventing the insurer from entering into any new insurance agreements.

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| | <p>However, FI cannot intervene against a subsidiary, which is not under its supervision.</p> <p>If FI limits the right of disposal or prohibit an insurer from disposing its assets, FI may decide how the business shall be conducted. FI may, inter alia, appoint an administrator to conduct the business.³⁷ (Cpt 9 s11 of IBA).</p> <p>After ordering any remedial action or imposing any sanction, FI may conduct an investigation in order to ensure that the insurer has complied with its order. If the matter is less serious, FI follows up during the annual review of the insurer. FI may also request additional reports in order to verify compliance.</p> <p>FI is empowered to object to the appointment of any person found unsuitable to hold office as a board member or MD in an insurer (ICP 7). FI may intervene if it is informed such a person has been appointed by taking appropriate enforcement actions, e.g., preventing such individuals from holding office in future.</p> <p>As an alternative to limiting or prohibiting disposal of assets, FI may adopt “soft ring-fencing” to insulate an insurer from the financial difficulties of other entities within the group. For example, it may issue an order requiring the insurer to give prior notice to FI before paying dividends, providing any loans, giving any security in favor of an affiliate or transferring assets to an affiliate within the group. This means that FI can intervene within the notice period against a qualifying holder, if necessary, in order to safeguard the interests of the policyholders.³⁸(Cpt 19 s3 of IBA).</p> <p>To ensure consistency, FI keeps a list of the sanctions it has imposed against insurers setting out the reasons for the decision, the sanctions imposed and the amount of the fine. All sanctions imposed by FI are published on its website.</p> <p>FI is empowered to take enforcement actions against persons who conduct insurance business without a license. Where there are reasons to suspect that any person is conducting regulated activities without a license, FI may publish the names of such persons on a warning list, which is published FI’s website and regularly updated. FI may also publish warnings from other jurisdictions.</p> <p>In 2010, FI was unable to suspend the business of an intermediary under police investigation for fraudulent activities until the investigation was completed. In the meantime, there was a risk that the intermediary might continue with activities that are prejudicial to policyholders’ interests.</p> |
| Assessment | Largely Observed |
| Comments | <p>FI takes a proportionate approach in exercising its enforcement and sanction powers. However, FI has no power to: a) order a compulsory transfer of insurance portfolios; b) intervene against a subsidiary of an insurer who is not under its supervision; and c) take measures to protect the interests of the public and policyholders pending the completion of police investigations.</p> <p>The authorities are advised to:</p> <p>a) Empower FI to order a compulsory transfer of insurance portfolios of an insurer in distress;</p> |

³⁷ FI revoked the licence of life insurer and appointed an administrator to conduct the business on behalf of FI until the court ordered the insurer to enter into compulsory liquidation.

³⁸ During the financial crisis in 2008 and 2009, FI ordered a number of insurers to give at least 48 hours’ notice before carrying out any transaction involving the transfer of assets to their parent companies.

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| | <ul style="list-style-type: none"> b) Strengthen FI's intervention powers against unregulated entities within an insurance group or financial conglomerate; c) Consider how best to empower FI in taking necessary measures to protect the interests of the public pending the completion of police investigations; and d) Review the government's continued involvement in enforcement and sanctions at institution-specific level. |
| Principle 16. | <p>Winding-up and exit from the market</p> <p>The legal and regulatory framework defines a range of options for the orderly exit of insurers from the marketplace. It defines insolvency and establishes the criteria and procedure for dealing with insolvency. In the event of winding-up proceedings, the legal framework gives priority to the protection of policyholders.</p> |
| Description | <p>FI may revoke an insurer's license if it: no longer meets licensing requirements; failed to take the actions set out in a plan for the restoration of a sound financial position within a specified period time; has seriously infringed the relevant laws and regulations; or is declared insolvent. Where a home supervisor decides that a foreign insurer is prohibited to carry on business in Sweden, FI shall prevent the foreign insurer from continuing its business in Sweden. (Cpt 19 s11 of IBA and cpt6 s9 of FIBA).</p> <p>An insurer shall enter into compulsory liquidation: a) in accordance with the terms of the articles of association; b) where all of its insurance business has been transferred; c) its license has expired or revoked; and d) it has failed to register the required number of board members or a MD. (Cpt 14 s3 of IBA).</p> <p>If an insurer is declared insolvent, the court shall appoint an administrator to administer the estate. FI may appoint a counsel to participate in the administration of the estate and shall do so in respect of an insolvent life insurer. The counsel shall, inter alia, ensure that the rights of the policyholders are properly protected. The liquidators of a life insurer or a life insurer who is insolvent shall transfer the insurance portfolio to a Swedish insurer or a foreign insurer licensed to carry on business in Sweden or within the EEA. FI must approve the transfer. (Cpt 2 s4 of Bankruptcy Act, Cpt 14 s21, s24 & s26 of IBA).</p> <p>The procedures for dealing with insolvency and the winding-up or special administration of an insurer are set out in the IBA and FIBA. (Cpt 14 of IBA and cpt 7 of FIBA).</p> <p>Sweden has implemented the EU Directive on the Reorganization and Winding Up of Insurance Undertakings (2001/17/EC). Under the Swedish regulations, all policyholders (including ceding insurers) will have priority rights to the assets covering technical provisions. Claims or of claims for refunds of premiums under insurance contracts have priority over any claims under reinsurance agreements. (Cpt 7 s11 of IBA)</p> <p>When an insurer is declared insolvent, the claims of its policyholders and legitimate beneficiaries have preferential ranking under the Rights of Priority Act (RPA), IBA and FIBA. However, the priority is only to the extent the claims are covered by assets noted on a special register. Any claims that are not covered by those assets are unsecured.</p> <p>In the event that an insurer does not have adequate assets to cover all claims (e.g., due to inadequate technical provisions maintained) or where the assets noted on the register are lost (e.g., due to fraud), policyholders and beneficiaries would not be adequately protected by the priority ranking. Where the assets are inadequate to cover the full amount of a policyholder's claim, the balance of the claim is treated as a claim without any right of priority and would rank <i>pari passu</i> with other unsecured creditors. Sweden has not established any policyholders' protection fund.</p> <p>Currently, an insurer must forward the special register to FI only upon request or present it</p> |

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| | <p>for FI's examination during inspections. Previously, insurers were under a duty to forward the special register to FI annually but this requirement had been waived to reduce reporting burden. Given a recent incident involving fraudulent use of assets covering technical provision³⁹, The authorities are advised to reconsider the waiver in this reporting requirements (S4a of RPA, cpt 7s11, cpt19s3 of IBA, cpt 5 s11 of FIBA and cpt8 s5 of FFFS2008:7).</p> <p>Insurer shall not pledge any assets covering technical provisions. (Cpt7s10 of IBA).</p> <p>The RPA, IBA ad FIBA does not set out any concrete principles for the rules that FI should apply for dividing the existing assets to the policyholders in the event an insurer is insolvent. It is up to the administrator or counsel appointed by FI to divide the available assets of the estate to the creditors (including policyholders) in accordance with the priority set out under the RPA.</p> |
| Assessment | Largely Observed |
| Comments | <p>The IBA and FIBA provides for orderly exits of insurers from the market. Policyholders (including ceding insurers) and legitimate beneficiaries have priority rights to the assets covering insurers' technical provisions in the event of insolvency. Regulatory requirements over assets covering technical provisions could be strengthened and clear rules of distribution of assets in the event of insolvency should be established.</p> <p>The authorities are advised to strengthen protection of policyholders and legitimate beneficiaries by:</p> <ol style="list-style-type: none"> a) ensuring adequate controls over assets covering technical provisions including quarterly submission of the special register of assets; and b) establishing clear rules on how existing assets of an insolvent insurer are to be distributed amongst policyholders. |
| Principle 17. | <p>Group-wide supervision</p> <p>The supervisory authority supervises its insurers on a solo and a group-wide basis.</p> |
| Description | <p>The IBA and SSFCA define what constitutes an insurance group and a conglomerate in order to determine which groups are considered to be insurance groups or conglomerates; and the scope of the supervision. (Cpt7a s1 & s2 of IBA and cpt2 s1of SSFCA).</p> <p>Supervisors within the EEA collaborate and coordinate the supervision of insurance group pursuant to the Helsinki Protocol. While the Helsinki Protocol provides for closer co-operation and co-ordination between supervisors, the supervision conducted by each home supervisor remains unaffected. The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) have published guidelines for coordination committees as a forum for cooperation on insurance supervisory matters. FI cooperates with foreign supervisors and contributes to the coordination of supervision (Article 5 of the Instructions to FI Order)</p> <p>The Helsinki Protocol states that the supervisors should take into account possible developments with regard to an insurer who is part of an insurance group and if necessary adjust the supplementary supervision and cooperation. There are various platforms of cooperation, e.g., through key-coordinator(s) or lead supervisor(s), depending on the group</p> |

³⁹ A Swedish life insurer had, *inter alia*, transferred a substantial sum of assets covering technical provision to a Swiss bank account of a third party, which was subsequently pledged as security in favour of the bank. There was a real risk that the assets might never be returned and that the registered assets would not be sufficient to cover all claims. FI and the liquidators, however, managed to arrange a portfolio transfer to another insurer.

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| | <p>structure.</p> <p>The regulatory requirements applicable to insurance groups include:</p> <ol style="list-style-type: none"> a) Group structure and interrelationships – notifications of qualifying holdings. (Cpt 3 s2 of IBA). b) Capital adequacy—adequate consolidated own funds having regard to other entities within the insurance group (consolidated solvency margin). Calculation of consolidated own funds and solvency margin using the aggregation and deduction methods. Use of consolidation method must be justified. Specifically, the calculation shall ensure there is no multiple gearing of own funds. (Cpt 7a s4 & s5 of IBA and FFFS 2002:4). c) proper control over related party transactions and agreements and their effects on the insurer’s financial position. Insurers shall, on an annual basis, provide details regarding any material transactions and agreements to FI.⁴⁰(Cpt 7a s3 of IBA and FFFS 2002:10). d) consolidated reporting of the insurance group. (Cpt 7a s6 of IBA). e) fitness and suitability of senior management of an insurance holding company. (Cpt 7a s9a of IBA). <p>At the time of assessment, there are no specific provisions regarding: reinsurance and risk concentrations in respect of insurance groups as well as internal controls and risk management processes applicable to insurance groups. This will be addressed in the new IBA coming into effect on April 1, 2011. Nonetheless, FI’s guidelines on supervisory expectations of insurers’ internal controls and risk management also apply to groups (see ICP 10 and ICP 18).</p> <p>FI has issued regulation addresses reporting by insurance groups in the areas of: reinsurance, off-balance sheet guarantees and transactions, items that may be included in own funds (e.g. subordinated loans), investments, loans and agreements for share expenses (e.g. IT costs and cost of premises). (FFFS 2002:10)</p> <p>Conglomerates within the EEA are subject to supplementary supervision. A supervisor who is the coordinator in respect of a conglomerate is responsible for supplementary supervision. Where FI has establishes that supplementary supervision is applicable, it shall notify the ultimate parent, the relevant home supervisors and the European Commission. FI shall co-operate and exchange information with the relevant home supervisors pursuant to the Conglomerate Directive. (Cpt 4 s1, cpt 5 and cpt 6 of SSFCA).</p> <p>The supervision of conglomerates would inter alia include the following:</p> <ul style="list-style-type: none"> • regular meetings with the representatives of conglomerates and discussions regarding risks; • assessment of reports on capital, risk concentrations⁴¹ and internal transactions and other requested reports regarding the conglomerate; and • assessment of the structure of the conglomerate, its organization, risk management and |
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⁴⁰ Related party transactions to be reported include: items that may be included on own funds (e.g., subordinated loans), investments, loans, reinsurance and agreement for shared expenses.

⁴¹ An undertaking within a conglomerate may not be exposed to financial risks or other risks which are large enough to threaten the solvency or the financial position of a regulated undertaking within the conglomerate. Material risk concentrations and including reinsurance risk concentrations shall, on an annual basis, be reported to FI. (Cpt 5 s7, s8 & s11 of SSFCA and FFFS2006:6).

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| | <p>internal control systems⁴² including reporting lines and fitness and propriety of board members, MD and qualifying holder.</p> <p>In the Traffic Light system, an insurer who is a parent company must take into account the risks arising in subsidiaries whose core operations consist of owning or managing real estate, equities, participating rights or other securities. These risks are to be included in proportion to the insurer's percentage shareholding under the respective risks.</p> <p>FI may reject an application for a license or revoke a license if the organizational (or group) structure hinders effective supervision.</p> <p>Sweden is the lead supervisor of five insurance groups for which supervisory colleges have been established pursuant to the Helsinki Protocol⁴³: Handels Liv Försäkringsaktiebolag, IKANO, Nordea Life Holding AB, SEB Life and the former Skandia Group.⁴⁴</p> <p>The large cross-border insurance groups submit risk management reports to FI, if Sweden is the lead supervisor. These reports include large exposures and stress tests of the total assets of the group. FI performed an assessment of concentration risks of one insurance group in 2010. FI, as the lead supervisor of another insurance group, worked together with the other supervisors to formulate an annual risk assessment report for the group.</p> |
| Assessment | Largely Observed |
| Comments | <p>Sweden's regulatory frameworks for insurance groups and conglomerates are in line with current EU Directives. However, there are no specific provisions regarding: reinsurance, risk concentrations, internal controls and risk management processes applicable to insurance groups. The impending implementation of Solvency II will strengthen supervision of insurance groups, subject to the adequacy of regulatory resources.</p> <p>The authorities are advised to consider:</p> <ol style="list-style-type: none"> reviewing the adequacy of supervisory resources, particularly for the effective supervision of cross-border groups/conglomerates; harmonizing the supervisory approach for insurance groups and conglomerates, e.g., in the area of risk concentration; and formulating appropriate regulatory requirements applicable to nonregulated holding companies.⁴⁵ |
| Prudential Requirements | |
| Principle 18. | <p>Risk assessment and management</p> <p>The supervisory authority requires insurers to recognize the range of risks that they face and to assess and manage them effectively.</p> |
| Description | FI has guidelines regarding governance and control. If the risk management system of an |

⁴² An insurer within a conglomerate shall adopt risk management processes and internal control mechanisms which are adequate having regard to the collective risk situation of the conglomerate. (*Cpt 5 s13 of SSFCA*).

⁴³ CEIOPS: List of groups for which a College of supervisors is in place.

⁴⁴ The group has been divided into three insurance groups (part of Old Mutual): Skandia Nordic, Skandia U.K. and Skandia Leben. There are ongoing discussions with concerned authorities due to the reorganization on the appropriate lead supervisor.

⁴⁵ Include non-operating holding companies, operating holding companies and non-regulated operating entities.

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| | <p>insurer deviates from the guidelines, it must justify to FI. (FFFS 2005:1).</p> <p>However, FI has not developed any method to monitor the adequacy of insurers' risk management systems on a regular basis. The submission of an annual risk management report is still not mandatory. In practice, this information is available and analyzed as part of supervision of major groups and undertakings.</p> <p>FI also does not require an applicant for a license to submit any policies or procedures regarding risk management and control. Insurers are also not under a duty to inform FI if its policies and procedures depart from FI's guidelines.</p> <p>During on-site inspection, FI would assess whether the risk management and control systems are in place and adequate for the nature and scale of an insurer and may intervene if it finds deficiencies.</p> <p>Insurers are required to submit quarterly reports under the Traffic Light model (ICP 23). However, certain risks, e.g., operational risks, are excluded from the Traffic Light model, such as operational risks. In addition, the model would not take into account insurers' internal models.</p> <p>While systemic market risk, e.g., stock market crash would not lead to remedial action by specific insurers, FI may work with insurers on an industry level to mitigate the potential impact. FI requires insurers to take remedial action if a "red light" resulted from specific risk, e.g., speculative investments.</p> <p>While there is no specific provision regarding the establishment of board committees, larger insurers typically establish a risk management function and some have set up risk management committees.</p> |
| Assessment | Largely Observed |
| Comments | <p>FI has issued guidelines on its supervisory expectation of insurers' risk management. There is a lack of resources to implement policies and processes to monitor the adequacy of insurers' risk management systems on a regular basis.</p> <p>FI is advised to develop policies and processes to monitor the adequacy of insurers' risk management systems on a regular basis including requiring insurers to report on their risk management system as part of the annual returns.</p> |
| Principle 19. | <p>Insurance activity</p> <p>Since insurance is a risk taking activity, the supervisory authority requires insurers to evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums.</p> |
| Description | <p>FI has issued guidelines on managing underwriting risks and reinsurance risks. The board of an insurer shall adopt policies governing underwriting of insurance and reinsurance business. The policy should provide for adequate spreading of risks and appropriate composition of insurance portfolios, having regard to the financial condition of the insurer. The board should also adopt a reinsurance program and minimize unforeseen risks. The policies should be regularly reviewed and be kept up-to-date. (FFFS 2000:5).</p> <p>The board should ensure that underwriting instructions and limits are complied with. Underwriting limits, estimated maximum loss and retention limits are to be properly documented. The underwriting instructions shall cover guidelines regarding risk assessment, risk acceptance, determination of premiums and renewals.</p> <p>A reinsurance program should include: a list of all reinsurance agreements in force; principles for reinsurance cover within each insurance class or risk group; retention limits within each insurance class or risk group; guidelines regarding choice of reinsurer; and</p> |

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| | <p>guidelines for ceding reinsurance within the group.</p> <p>During its on-site inspections, FI checks that insurers evaluate the risks based on sound underwriting principles and establish and maintain an adequate level of premiums. FI also examines whether insurers have systems in place to control their expenses related to premiums and claims, including claims handling and administration expense</p> <p>FI has no power to direct how insurers calculate premiums, but is authorized to review the methodology used to set premium. FI may intervene if the technical provisions are deemed to be too low.</p> <p>At the beginning of each year, FI reviews ceded reinsurance by insurers with low retention ratios. FI would assess whether the rating of the reinsurers are satisfactory and require insurers to explain their reinsurance arrangements, if necessary.</p> <p>FI may refuse deductions for reinsurance in an insurer’s solvency computation if it is not satisfied with the reinsurance security or where it involves financial reinsurance that does not constitute a transfer of risks. However, there are no established criteria or threshold to determine whether there is risk transfer. If the reinsurer is authorized in another EEA state, deduction may not be denied based on deficiencies in the financial soundness of the (re)insurer.” (Cpt 7 s23 & s25 of IBA, Cpt7 s9 of IBA).</p> <p>FI has not implemented any specific procedures to check that risk transfer instruments are properly accounted for in the annual reports of insurers. FI relies on auditors who audited the annual reports and may check this during on-site inspection.</p> |
| Assessment | Largely Observed |
| Comments | <p>FI has issued guidelines on managing underwriting risks and reinsurance risks. It reviews insurers’ underwriting policies and controls as well as reinsurance arrangements during on-site inspections. Supervisory processes in relation to assessment of insurers’ reinsurance arrangements and risk transfer instruments could be enhanced.</p> <p>FI is advised to:</p> <ul style="list-style-type: none"> a) review the adequacy of reinsurance programs as part of its routine off-site surveillance instead of the current limited scope review; and b) establish policies and procedures to check that insurers properly account for all risk transfer instruments. |
| Principle 20. | <p>Liabilities</p> <p>The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities, and making allowance for reinsurance recoverables. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.</p> |
| Description | <p>Technical provisions of an insurer shall correspond to the sum required to meet its commitments that may be reasonably expected to arise from time to time. IBA also sets out the principles and methodology for establishing and calculating technical provisions. (Cpt 7 s1 to s4 of IBA and cpt 4 s9 of ARIUA).</p> <p>FI has issued guidelines on technical provisions guidelines and basis for actuarial calculations and regulations on insurers’ choice of interest rate for calculation of technical provisions. (FFFS 2003:8 and FFFS2008:23).</p> <p>To address the volatility and procyclical effects of using current market interest rates as the discount rate for technical provision, FI is proposing the use of a “calculated long-term</p> |

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| | <p>interest-smoothing rate' under Solvency II. The interest-smoothing rate is based on the inflation target and a real rate assumption and is applied for cash flows when it is judged that there is no liquid market for fixed income investments. FI has studied the impact of using a 4.2 percent in Sweden (2 percent inflation assumption and a real interest rate of 2.2 percent) in the recent QIS5 exercise in preparation for Solvency II.</p> <p>The assessment and calculation of the technical provisions shall be conducted under the supervision of an actuary. Insurers must adopt and comply with technical provisions guidelines, which set out the principles for: determining the premium; calculating technical provisions; surrender of and loan on insurance policies; allocation of surplus and bonus declaration; reinsurance; and solvency. (Cpt 8 s18, cpt7 s3of IBA).</p> <p>FI has issued guidelines requiring insurers to adopt claims reserving policies that take into account various risk or product groups. The policy should ensure that there are proper decision process and satisfactory controls to determine and monitor claims reserves and related risks. The policy should also be regularly reviewed and updated. There must be adequate systems for recording claims to ensure accuracy and completeness and clear reporting requirements to the board and MD. (FFFS 2000:4).</p> <p>However, FI has not established any regulatory requirement on the computation of technical provisions for conditional bonus. In addition, there is no requirement for an explicit risk margin for technical provisions.</p> <p>A direct life insurer shall submit an analysis of the results of the business. The assumptions used shall be set out in a statement prepared by the actuary. (FFFS 2008:22).</p> <p>FI reviews the adequacy of insurers' technical provisions through off-site monitoring (quarterly and annual regulatory reports) and on-site inspection. FI has power to intervene and may order an insurer to increase its technical provisions if FI finds that the technical provisions are insufficient having regard to the scope and nature of its business.⁴⁶(Cpt 19, s11 of IBA).</p> <p>FI may also limit or prohibit the disposal of assets by an insurer if it has failed to comply with applicable rules regarding technical provisions and/or assets covering technical provisions.</p> <p>FI has issued guidelines on underwriting risks and reinsurance risks, which, inter alia, set out the general limits for the valuation of reinsurance recoverables. FI's guidelines on the annual reports of insurers set out provisions regarding recognition of reinsurance recoverables. (FFFS 2000:5 and FFFS2006:26).</p> <p>Under the Traffic Light model, insurers are subject to regular stress testing based a range of adverse scenarios in order to assess the adequacy of capital resources and technical provisions.</p> |
| Assessment | Largely Observed |
| Comments | <p>FI has established principles and regulatory guidelines on the computation of insurers' technical provisions, which are subject to stress testing under the Traffic Light Model. FI is empowered to require insurers to remedy any shortfall in their technical provisions, if necessary. However, there is no explicit risk margin and no regulatory policy for computing technical provisions in respect of conditional bonuses.</p> |

⁴⁶ Traffic Light results of a non-life insurer suggested that its technical provisions were insufficient. FI conducted informal discussions with the insurer, who then injected capital and increased the technical provisions. The insurer was subsequently sold to another insurer.

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| | The implementation of Solvency II will strengthen FI's supervision over insurers' technical provisions. |
| Principle 21. | <p>Investments</p> <p>The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management.</p> |
| Description | <p>IBA and FI regulations set out the requirements for insurers' investments activities. These include requirements on holding assets for covering technical provisions, reinsurance deposit; and equalization reserves in respect of credit insurance. Assets covering technical provisions shall be invested and valued in accordance with the IBA. (Cpt7 of IBA and FFFS 2008:7).</p> <p>The regulatory requirements relating to investments include:</p> <ul style="list-style-type: none"> • Composition and diversification by type - the type of assets that may be used for covering technical provisions. (Cpt7 s10 of IBA). • Prudent diversification of risks. (Cpt7 s9 of IBA). • Limits, restrictions and admissibility of investments. (Cpt7 s10, 10b & 10c of IBA). • Safekeeping of assets- assets covering technical provisions shall be kept within the EEA if the risk is situated within the EEA; otherwise the assets shall be located in Sweden. Assets may be kept outside the EEA only if the safe-keeping of the assets would not jeopardize the rights of priority of the policyholders and otherwise be deemed safe (see ICP 16). (Cpt7 s10d of IBA). • Matching of assets and liabilities and liquidity. (Cpt7 s9a of IBA). • Management of the risks arising from exchange rates fluctuations and hedging. (Cpt7 s10e of IBA and cpt 6 r2 of FFFS 2008:7). <p>However, the above requirements do not apply to assets corresponding to provisions for conditional bonus and commitments for ULPs. The only requirement is that such assets shall be invested prudently, having regard to the nature of the commitment.</p> <p>The assets covering the technical provisions shall be valued in accordance with IBA and FI regulations. Generally, investments are to be valued based on their fair values. Any debts incurred for the purchase of the assets shall be deducted from the value of the asset. (Cpt7 s1, s2, s9 of IBA, cpt 2 r2 of FFFS2008:7, cpt 4 of ARIUA and Cpt 4 r6 to r13 of FFFS 2008:26).</p> <p>Insurers shall have in place investment policies, which shall be adopted and regularly reviewed by the board. Insurers are expected to manage and control the following investment risks: credit risks; market risks; liquidity risks; operational risks; and matching risks. The board should adopt internal rules regarding risk management and control and ensure compliance. Insurer's investment operations are subject to stress testing under the Traffic Light model. (Cpt7 s10g and cpt 8 s8 of IBA, Cpt4 s1& s2 of FFFS 2005:1).</p> <p>FI does not have the resources to examine, on a regular basis, whether insurers have in place adequate internal controls or whether the assets are managed in accordance with their investment policies. This may be covered during on-site inspection, depending on the purpose of the inspection.</p> <p>The board and the MD are held accountable for any part of the business that is outsourced to an affiliate or any other third party, including investment operations. (Cpt 7 s1 of FFFS 2005:1).</p> <p>Insurers should establish an internal audit function, which would cover the audit of its</p> |

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| | <p>investment operations. In auditing the annual report of an insurer, the external auditor would include an assessment of its investment activities. (Cpt 6 s1 of FFFS 2005:1).</p> <p>At the time of assessment, there were no explicit regulatory requirements on:</p> <ul style="list-style-type: none"> a) the level of skills, experience and integrity of the staff involved in investment activities; b) asset-liability management;⁴⁷ and c) contingency plans to mitigate the effects of deteriorating conditions. <p>The new IBL effective on April 1, 2011 addresses the above issues.</p> <p>During 2009, FI reviewed the registers of assets covering technical provisions maintained by insurers. FI found insurers' handling of the register to be unsatisfactory.⁴⁸</p> |
| Assessment | Largely Observed |
| Comments | <p>The IBA and FI regulations set out the requirements for insurers' investments covering technical provisions. There is scope for updating FI's regulations to reflect international best practice. FI does not have adequate resources to examine insurers' investment operations on a regular basis.</p> <p>FI is advised to enhance the robustness of its supervision of insurers' investment operations and update its regulations on investment management by insurers.</p> |
| Principle 22. | <p>Derivatives and similar commitments</p> <p>The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.</p> |
| Description | <p>Insurers may use options and forward contracts and other similar financial instruments to reduce the financial risk and achieve efficient portfolio management. (Cpt7 s17b of IBA).</p> <p>The disclosure requirements and valuation basis in respect of derivatives are set out in the ARA, ARIUA and guidelines issued by FI. Insurers shall apply IFRS 7 (Financial Instruments: Disclosures) in their financial statements to all financial instruments including derivatives. If an insurer uses derivatives to reduce the insurance risk, it shall disclose information according to IFRS 4 (Insurance Contract). Information regarding derivatives shall be reported together with underlying assets. (Cpt 5 s1 of ARIUA, cpt 5 s3 & s4a to s4c of ARA and FFFS 2008:26).</p> <p>FI is in the process of formulating the regulations, which would address, inter alia, the following elements currently not provided for under its guidelines:</p> <ul style="list-style-type: none"> a) provisions regarding required expertise, qualifications or competence related to the use of derivatives; b) content of the investment policy relevant to derivatives; c) risk management requirement covering the risks from derivatives activities so insurers can monitor and manage in an integrated manner with similar risks arising from nonderivatives activities on a consolidated basis; |

⁴⁷ The practice of managing a business so that decisions and actions taken with respect to assets and liabilities are coordinated

⁴⁸ FI's Supervisory Report for 2010.

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| | <p>d) internal controls over derivatives;</p> <p>e) measures for ensuring that staff have appropriate skills to vet models and price the instruments;</p> <p>f) policy on the use of “over-the-counter” derivatives; and</p> <p>g) internal audit procedures covering derivatives activities.</p> |
| Assessment | Partly Observed |
| Comments | <p>Insurers disclose their derivative activities in accordance with relevant accounting standards, ARA and ARIUA. However, FI has not issued regulations on insurers’ derivative activities. It is in the process of drafting the regulations; as it is authorized do so under the new IBA.</p> <p>The authorities are advised to expedite the issuance of regulations governing insurers’ derivative activities.</p> |
| Principle 23. | <p>Capital adequacy and solvency</p> <p>The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.</p> |
| Description | <p>The current solvency regime in Sweden is largely based on EU Solvency I. As the regime is not sufficiently sensitive to the size, complexity or risks of different insurers, FI has introduced the Traffic Light model with prescribed stress testing and reporting (see summary on the Traffic Light model below).</p> <p>Sweden is under an obligation to comply with EU legislation and participates in the EU’s deliberations on Solvency II.</p> <p>Swedish insurers shall, in addition to assets covering the technical provisions, have available solvency margin to meet the required solvency margin, at all times. Insurers’ available solvency margin may include: paid-up share capital or paid-up initial fund; any other equity, less dividends; and untaxed reserves. FI may also, subject to certain conditions, permit other items to be included in the available solvency margin, e.g., subordinated loans. Contingency reserves shall not be included in the available solvency margin. (Cpt 7s22 to s27& cpt1 s8 of IBA,FFFS 2008:22, FFFS 2008:19 and FFFS 2008:21).</p> <p>The available solvency margin shall at least meet the minimum guarantee fund. A composite insurer conducting both life and nonlife insurance businesses shall calculate and report its available solvency margin for the two businesses separately. (Cpt 7s28 of IBA).</p> <p>FI allows risk mitigation/transfer through reinsurance arrangements. However, FI may in some circumstances refuse deductions for reinsurance in the solvency declaration. (ICP 19).</p> <p>FI shall intervene if the available solvency margin of the insurance company is less than the required solvency margin. FI has established certain thresholds for solvency ratio above 1.0 and may intervene if the ratio falls below the thresholds. If the solvency ratio is less than 1.3 and 1.5 for a nonlife insurer and a life insurer, respectively, FI monitors the insurers closely. FI also monitor any insurer whose solvency ratio has dropped more than 10 percent. (Cpt 19 s11 of IBA).</p> <p>The solvency regime applies also to foreign insurers outside the EEA, which have established a branch in Sweden.</p> <p>FI would, in addition to the Traffic Light model, make a forward-looking analysis by</p> |

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| | <p>conducting additional stress tests. The information would be based upon information received from the last report submitted by an insurer and on market information (stock prices, interest levels, etc.). If the solvency position falls below one or more thresholds, FI would intervene and require remedial action.</p> <p>The role of the responsible actuary under the IBA is to supervise actuarial calculations and analyses. There is no formal requirement on: the actuary forming an opinion of the financial status of a life insurer and a signed report by the appointed actuary of a nonlife insurer. It is recommended practice, however, that the actuary sends such a report to the board and the MD.</p> <p>The Traffic Light Model</p> <p>The Traffic Light model (ICP 4 provides an overview) is a supervisory tool for mentoring insurers' financial condition. FI prescribes "stress tests" to measures how both assets and liabilities are affected by specified risks, i.e., net effect of asset-price changes⁴⁹ and the resulting impact on their capital buffers. It recognizes the diversification effects between asset types as well as risk reduction/increases through the use of financial derivatives.</p> <p>Currently, the Traffic Light model captures most of the risk factors considered under Solvency II, although some risks are not taken into account, e.g., operational risks. Insurers would calculate the capital requirement for each risk factor. The capital requirement is computed as changes in the value of own funds due to stressed scenario or uncertainty in parameter values, calibrated based on value at risk of 99.5 percent for one year. The capital requirements arising from the various risk factors are then aggregated using a square root formula based on assumed correlations. FI provides Excel spreadsheet to insurers to facilitate their preparations of the Traffic Light reports, which are signed electronically by their MDs.</p> <p>The model assigns a "red light" to insurers with solvency ratio of less than 1. Where necessary, FI may require the insurers concerned to reduce their risks, submit a plan to restore solvency or more frequent reporting to FI. The Traffic Light model facilitates early intervention, based on the identification of any significant threats to policyholders' interests, which is not limited to a shortfall of solvency margin.</p> <p>Recent Traffic Light results reveal that more than 70 percent of the capital requirement for life insurers under the Traffic Light model comes from financial risks, with insurance risks making up the balance. Equity price risks dominate in terms of financial risks, accounting for 60 percent of the calculated capital requirement. The traffic light's stress test for shares includes a 40 percent and 37 percent drop in Swedish equities and global equities, respectively. It also captures a parallel shift of plus or minus 10 percent of Swedish 10 year government bond, amongst other market risks.</p> |
| Assessment | Largely Observed |
| Comments | <p>The current solvency regime in Sweden is largely based on EU Solvency I. As the regime does not take account of all key risks of insurers, FI has introduced the Traffic Light model with prescribed stress testing and reporting requirements as a supervisory tool to better understand insurers' risks profiles and to facilitate early intervention, where appropriate.</p> <p>The implementation of Solvency II with effect from January 2013 will facilitate FI in</p> |

⁴⁹ Example: A decline in equity prices normally only affects assets in the balance sheet. However, if the insurer has a conditional bonus in its actuarial provisions that depends on the value of its shareholdings, the change in actuarial provisions resulting from the decline in the share price must be included. The same applies to all asset-price changes that affect both assets and liabilities.

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| | implementing a more robust and risk-sensitive solvency regime. |
| Markets and consumers | |
| Principle 24. | Intermediaries The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries. |
| Description | <p>The Swedish Insurance Mediation Act (SIMA) entered into force in 2005, implementing the EU Directive on Insurance Mediation (2002/92/EC). Insurance mediation is defined as “the activities of introducing, proposing or carrying out other work preparatory to the conclusion on contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim.”</p> <p>SIMA establishes authorization requirements for intermediaries. An applicant must: a) not have been declared bankrupt; b) a clean police record and must act conscientiously in economical matters; c) possess the necessary general, commercial and professional knowledge and ability; and d) be covered by a professional indemnity insurance (or comparable guarantee) against liability arising out of professional negligence.</p> <p>A person intending to carry on insurance mediation business in Sweden must apply to FI for a license. The insurance intermediary shall, within six months from the date that FI granted the license, forward an application for registration to the Companies Registration Office and may only commence business after the license was registered. (Cpt 2 s3 of SIMA).</p> <p>Only Swedish nationals or legal entities incorporated in Sweden may register as intermediaries. However, subject to certain notification procedures, insurance and reinsurance intermediaries registered in other EEA states may conduct business in Sweden on a cross-border basis or by establishing a branch. Insurance or reinsurance intermediaries outside of the EEA may only provide insurance mediation from a Swedish branch if they are licensed by the FI.</p> <p>An insurer shall be liable for any financial loss or damages incurred or suffered by a customer arising from the negligence or willful misconduct by its tied intermediaries⁵⁰. Tied intermediaries need not take out a professional indemnity cover and they are not licensed. However, an insurer must register its tied intermediaries with the Companies Registration Office after making sure that they meet certain requirements. Three of the four large banks are registered tied intermediaries of their insurance subsidiaries. (Cpt 1 s10 and cpt 2 s4 of SIMA).</p> <p>The employees of insurers who are involved in direct sales to customers do not fall within the scope of the Insurance Mediation Act. However, they have to comply with disclosure requirements under the IBA. Banks, acting as tied insurance intermediaries, and their employees are subject to the same disclosure requirements applicable to insurance intermediaries. (Cpt 6 of FFFS 2005:11).</p> <p>FI requires insurance intermediaries to have adequate general, commercial and professional knowledge and ability and be of good repute. (FFFS 2005:11).</p> <p>FI supervises insurance intermediaries. During 2008, FI conducted a survey of 850 insurance intermediaries. The survey revealed, inter alia, that many insurance intermediaries receive a large portion of their revenues from promotion from insurers or</p> |

⁵⁰ A tied intermediary is defined as a natural or legal person who has entered into an agreement with one or several insurers regarding the mediation of insurance products.

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| | <p>investment firms, which may pose conflict of interests and affect their obligations to act in the best interests of their clients. As a result of the survey, FI issued 30 sanctions ranging from warnings with fines, to injunctions and reprimands. FI also concluded that it is important to have clear distinction between marketing and mediation (see ICP 25). (Cpt 7 s1 & s4 of SIMA and FI Report 2009-04-07).</p> <p>Due to limited supervisory resources, there were very few inspections of banks in their role as tied intermediaries in 2009 and 2010.</p> <p>FI has sanctioned a number of insurance intermediaries in the past 3 years. In particular, FI sanctioned a tied insurance intermediary in 2008, by issuing a warning and imposing a fine of SEK 800,000 for regulatory breaches. (Cpt 7 s3 of SIMA).</p> <p>FI may intervene if an insurance intermediary has failed to perform its duties under the law. FI may order the insurance intermediary to take remedial action or issue an injunction or a reprimand. If the infringement is serious, FI may revoke the license of the insurance intermediary or the registration of a tied intermediary or issue a warning.⁵¹ (Cpt 8 s1 of SIMA).</p> <p>An insurance intermediary who handles client's money or assets must keep them separate from his or her own assets. The intermediary must open a separate account designated as "clients account." Assets held in the clients account must be properly segregated. The Client Accounts Act provides that the assets of a client would be protected from the insolvency or bankruptcy of an intermediary if the assets were kept in a separate account. (Cpt 5 s5 of SIMA).</p> <p>An insurance intermediary shall provide its/his name and address and information regarding the relevant registry where its/his details are recorded. An insurance intermediary shall, before the execution of an insurance contract, inform the customer whether it/he is under a contractual obligation to mediate insurance products of one or more insurance undertakings and provide the name(s). (Cpt 6 s1 & s2 of SIMA).</p> <p>FI shall order any person who carries on insurance mediation business in Sweden without a license to discontinue with the business. The person may be liable to pay an administrative fine if it fails to do so. (Cpt 8 s19 & s20 of SIMA).</p> |
| Assessment | Observed |
| Comments | FI administers the licensing of intermediaries with established criteria and monitors intermediaries' compliance with applicable regulatory requirements. |
| Principle 25. | <p>Consumer protection</p> <p>The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been satisfied.</p> |
| Description | The responsibility for consumer protection is divided between FI and the SCA, with the involvement of other government agencies. FI acts on the basis of financial sector legislations and regulations, while the SCA administers the Swedish marketing Act and the |

⁵¹ FI issued a warning against a tied intermediary and imposed a fine of SEK 800,000 for failing to comply with obligations under the SIMA and FFFS 2005:11. The intermediary did not meet the requirements regarding knowledge and experience, the business was not carried on in accordance with good insurance mediation practice and it had failed to adopt customer complaints procedures.

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| | <p>Swedish Consumer Contracts Act, amongst others. Other participants involved include the National Board for Consumer Complaints and the Consumer Ombudsman, who deal with individual consumers.</p> <p>FI and the SCA are the key drivers of the Consumers' Banking and Finance Bureau and the Consumers' Insurance Bureau (CIB). CIB is a foundation founded by the Swedish Insurance Federation (FF), the SCA and FI. All the three founders are represented on CIB's board of directors. CIB is financed by the insurance industry and reports to FI concerning emerging issues arising from consumers' complaints.</p> <p>CIB's role is to "inform, guide and help insurers in insurance matters" but it is not involved in resolution of disputes. At the time of assessment, CIB has 10 employees to deal with around 13,000 enquiries annually, 80 percent of which relate to complaints against insurers.</p> <p>The National Board for Consumer Complaints has a department for consumer insurance that reviews issues involving insurance terms and conditions and claims adjustments. The Board's decisions are recommendations that are not binding on both parties. However, insurers typically would comply with the Board's recommendations.</p> <p>Insurers are required by law to act with due skill, care and diligence in their dealing with consumers. Insurance intermediaries shall, carry on its business in accordance with good insurance mediation practice and safeguard the interests of the customer. FI has power to intervene if they fail to do so.⁵² (Cpt 5 s4 of SIMA).</p> <p>Insurers shall conduct their business in accordance with generally accepted insurance business standards. FI has issued guidelines on ethical conduct of supervised entities. In particular, the board of an insurer must adopt a code of conduct regarding accepted business standards, fair treatment of customers and the ethical behavior of employees, which should be regularly reviewed and updated. Insurers should also provide information and proper training to its employees. (FFFS 1998:22).</p> <p>Insurers and insurance intermediaries are required by law to seek relevant information from their consumers to assess their insurance needs, before giving advice or concluding a contract. They must also provide specified pre-contract information to customers. (Cpt1 s1a of IBA, FFFS 2003:7, FFFS 2007:9; FFFS 2005:11 and cpt 5s4 & cpt 6 s1 to s7 of SIMA).</p> <p>FI has issued guidelines on complaints handling procedures. Insurers must justify to FI if their complaints handling system deviates from the guidelines. FI may intervene if it finds that the procedures are inadequate. (FFFS 2002:23).</p> <p>An insurance intermediary shall ensure that its customers and any other persons affected by the mediation can lodge a complaint. The complaints procedure shall be effective. An insurance intermediary shall attend to the complaints as soon as possible. FI has issued regulations regarding the administration of customer complaints. (Cpt 5 s6 of SIMA and FFFS 2005:11).</p> <p>An intermediary shall disclose all remuneration received, regardless of when and in what form the remuneration is paid and whether the remuneration is paid by the customer or a third party. This disclosure requirements also applies when a consumer transfers a policy to another insurer. (Cpt 6 s5 of FFFS 2005:11).</p> <p>Insurers and insurance intermediaries are required to protect confidential information regarding the policyholders or the customers. There are specific provisions under the Personal Data Act (1998:204) and IBA. Information received by a public authority is</p> |
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⁵² FI found that an insurance intermediary had failed to act in accordance with good insurance mediation practice and imposed a fine in the sum of SEK 700,000.

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| | <p>governed under the Public Access to Information and Secrecy Act. (Cpt 7 s20 and s20a of IBA).</p> <p>The Revised Siena Protocol applies to the cooperation and exchange of information between FI and other supervisors within the EEA. The host supervisor shall, within two months from the date of receipt of the notification of an establishment of a branch or provision of services, forward to the home supervisor, its conditions in the interest of general good. The general good provisions adopted by FI are available on the website.</p> <p>The 2008 Marketing Practices Act regulates the marketing of insurance products in Sweden. The Act also applies to the distribution of brochures and other marketing materials. Its main provisions require that marketing shall comply with good commercial standards, and shall be fair and reasonable towards the persons at whom it is directed.</p> <p>The ICA provides for the obligation to provide pre-contractual information to customers and policyholders. The ICA has strengthened the position of consumers relative to insurers through extensive information requirements, increasing the insurer's obligation under insurance contracts and introducing a mandatory right for policyholders to surrender life policies.</p> <p>The 2004 Financial Advice Act applies to the marketing life insurance products with savings elements. A person who sells such life policies must have sufficient competence and all advice and statements made must be documented and provided to the consumer in writing. An insurer must ensure that the products are properly sold and meet the needs and circumstances of the consumer.</p> <p>The 2005 Distance Marketing Act, implementing the EU Directive on Distance Marketing of Consumer Financial Services (2002/65/EC), applies to distance agreements including insurance contracts. The Act requires certain information to be provided by a business entity when offering services over the internet, e.g., name and address of the insurer; main features of the product; price; cooling off period (14 days and 30 days for life insurance); and how complaints will be handled.</p> <p>FI is responsible for implementing EU Regulation on Cooperation between National Authorities Responsible for the Enforcement of Consumer Protection.⁵³ It may enter into international agreements pursuant to this Regulation without the participation of the Riksdag or of the Committee for Foreign Affairs (s4 of FIO).</p> <p>FI has established a coordination secretariat for "Financial Education" and a special website. A campaign for further personal finance education in upper-secondary schools has been carried out together with the SCA and Swedish Enforcement Authority (Kronofogdemyndigheten). FI also publishes investor alerts on its warning list against investment fraud, available on its website. There are now more than 2, 600 names on the warning list.</p> <p>FI's Supervisory Report for 2010 noted that insurance intermediaries have taken on an increasingly larger role with regard to financial advice. However, FI's investigation revealed that many intermediaries fail to comply with applicable laws and regulations. Consequently, FI plans to increase its supervision of intermediaries and review the relevant regulations.</p> <p>The insurance industry is currently working on producing a more uniform factsheet that will make it easier to make comparisons. FI intends to contribute to this process by</p> |
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⁵³ Regulation (EC) No. 2006/2004 of the European Parliament and of the Council dated October 27, 2004.

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| | <p>publishing general guidelines setting out what the factsheets should contain.</p> <p>Some life policies provide for conditional bonuses that are not guaranteed but would vary according to the investment performance of the underlying assets. FI has not issued guidelines on how insurers are expected to exercise their discretion in deciding on the level of conditional bonus and the related disclosures to policyholders. Historically, the principle and basis for sharing surpluses between shareholders and policyholders is not a significant issue in Sweden as most insurers were structured as mutual societies. However, as insurers are increasingly incorporated as companies, there is scope for the authorities to formulate regulatory requirements to achieve equity between policyholders and shareholders as well as equity between different classes or generations of policyholders.</p> <p>Insurers expressed concerns on the increasing incidence of policyholders transferring their policies without proper advice on whether such transfers are in their best interests. It is recognized that most transfers of traditional policies are likely to result in lower benefits to policyholders due the reduced assumed yield rates over the years. The authorities are advised to review whether existing regulatory measures are adequate to ensure that policyholders are given proper advice in their best interests in respect of policy transfers.</p> |
| Assessment | Largely Observed |
| Comments | <p>The regime for consumer protection in Sweden is established under various legislations, administered mainly by FI and SCA with the support of industry associations. Other agencies involved include the National Board for Consumer Complaints and the Consumer Ombudsman. Consumer protection should be strengthened by establishing regulatory requirements for conditional bonuses and review of effectiveness of regulatory measures for transfer of policies.</p> <p>The authorities are advised to:</p> <ol style="list-style-type: none"> a) review the adequacy of current regulatory requirements for conditional bonus and transfer of policies; and b) consider articulating more clearly the roles and accountabilities of various agencies involved in consumer protection to improve efficiency and promote better understanding by consumers. |
| Principle 26. | <p>Information, disclosure & transparency towards the market</p> <p>The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.</p> |
| Description | <p>Insurers are required to disclose information to stakeholders in their annual reports, prepared in accordance with the provisions set out in the ARIUA, ARA as well as regulations and guidelines issued by FI. There are also additional disclosure requirements for listed insurers.</p> <p>Specifically, insurers are required to provide in the directors' report:</p> <ul style="list-style-type: none"> • technical results for the last five financial years; and a key figure with reference to capital strength at the end of the last five financial years. (Cpt 6 s2 of ARIUA); • technical provisions; the proportion of reinsurer's part of technical provisions; and income, costs and the result of the business operations. (Cpt 6 s3 of ARIUA); • information regarding the use of financial instruments including objectives and principles applied for financial risk management; the principles for hedging for which hedge accounting is used; and exposure for price risks, credit risks, liquidity risks and cash flow risks. (Cpt 6 s1 of ARIUA); and |

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| | <ul style="list-style-type: none"> • Management and corporate governance. (Cpt 6 s1 of ARIUA). <p>Insurers shall file, at the Companies Registration Office, certified copies of the annual report and the auditors' report in respect of the previous financial year within one month following their approval. The annual report and the auditor's report are available to the general public. (Cpt 8 s5 of ARA).</p> |
| Assessment | Largely Observed |
| Comments | <p>The ARIUA, ARA as well as regulations and guidelines issued by FI governs insurers' public disclosure. However, the disclosures do not fully cover the requirements under the IAIS standards on public disclosure.</p> <p>To facilitate market discipline, FI should formulate plans to implement the IAIS supervisory standards on public disclosures.⁵⁴</p> |
| Principle 27. | <p>Fraud</p> <p>The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect and remedy insurance fraud.</p> |
| Description | <p>Under the current organizational structure in Sweden on combating economic/financial crimes, FI does not have the formal authority to establish and enforce regulations to combat fraud. The SECA is responsible for coordination measures against economic crime. SECA investigates false accounting, crime relating to bankruptcy, tax crimes, insider dealing, EU fraud and other complex economic crime that requires financial and business expertise. FI communicates with enforcement authorities as well as with other supervisors to deter, detect, and record, but not to remedy fraud in insurance.</p> <p>Fraud is generally addressed in the Criminal Code, which covers insurance fraud, e.g., where an insured person deliberately causes him/herself injury in order to claim insurance compensation. Claims fraud is a punishable offence.</p> <p>FI does not have the legal obligation to require insurers to report fraud to appropriate authorities. FI has, however, issued nonbinding regulations and insurers are expected to report events that may jeopardize its stability or policyholders' assets. SECA exchanges information with FI including suspected cases of instance fraud.</p> <p>During its inspections, FI staff regularly raises the question of counter-fraud measures. This may include underwriting process or independent reviews of sampled closed claims files. The Swedish Insurance Federation has on its own initiative, organized counter-fraud activities. The industry has also organized a common claims database.</p> <p>FI recently cooperated with other supervisors to investigate the Aspis Liv Försäkringsaktiebolag case, where cooperation took place with supervisory authorities in Greece, Portugal and U.K.</p> |
| Assessment | Observed |
| Comments | <p>FI and industry participants have taken a proactive approach to combating insurance fraud. There is also close cooperation and information exchange with SECA and other</p> |

⁵⁴ Standard on Disclosures Concerning Technical Performance and Risks for Nonlife Insurers and Reinsurers (October 2004), Standard on Disclosures Concerning Investment Risks and Performance for Insurers and Reinsurers (October 2005) and Standard on Disclosures concerning Technical Risks and Performance for Life Insurers (October 2006).

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| | enforcement agencies and other supervisors, both locally and internationally, to address fraud to preserve the integrity of the insurance sector. |
| Anti-money laundering, combating the financing of terrorism | |
| Principle 28. | <p>Anti-money laundering/combating the financing of terrorism</p> <p>The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to take effective measures to deter, detect and report money laundering and the financing of terrorism consistent with the Recommendations of the Financial Action Task Force (FATF) on Money Laundering.</p> |
| Description | <p>Sweden was evaluated by FATF in 2006 and was placed into regular follow-up. Since then, Sweden has been taking action to enhance its AML/CFT regime in line with the recommendations in the FATF Mutual Evaluation Report.⁵⁵ FATF has noted that Sweden has taken measures to bring 18 out of the 20 recommendations previously rated partially compliant or noncompliant to at least a level equivalent to largely compliant. In recognition of the progress made, the FATF plenary has agreed to take Sweden out of the regular follow-up process.</p> <p>In 2009, Sweden adopted a new legislation to counteract money laundering and terrorism financing, namely the Act on Measures against Money Laundering and Terrorist Financing (SFS 2009:62) (AML/CFT Act). The AML/CFT Act implements EU Directive 2005/60/EC and the accompanying Commission Directive 2006/70/EC, which give effect to the FATF 40 + 9 recommendations.</p> <p>The AML/CFT Act is applicable to life insurance businesses and insurance mediation. FI has been mandated to set up a coordinating body for AML/CFT supervisory authorities, supervising both financial entities and nonfinancial entities. In particular, FI is responsible for supervising life insurers' and insurance intermediaries' compliance with the AML-CFT Act. FI has issued regulations on Measures against Money Laundering and Terrorist Financing. (Cpt1 s2 and cpt 6 s1 & s2 of AML-CFT Act and FFFS 2009:1)</p> <p>The AML-CFT Act and FFFS 2009:1 requires insurers and insurance intermediaries to comply with AML/CFT requirements which are consistent with the FATF Recommendations, including:</p> <ul style="list-style-type: none"> • designating a Money Laundering Reporting Officer; • establishing risk based internal procedures and policies to prevent money laundering and terrorist financing including policies and procedures for CDD, i.e., normal CDD, simplified CDD and enhanced CDD), record retention, detection of unusual and suspicious transactions and reporting, staff training, as well as protection against threats towards staff; • developing internal programs (including training), procedures, controls and audit functions to combat money laundering and terrorist financing; and • ensuring that foreign branches and subsidiaries observe appropriate AML/CFT measures consistent with the home jurisdiction requirements. <p>FI has established a special unit in its Markets Supervision department, with 8 staff members to support the other departments on AML/CFT issues. The unit also conducts</p> |

⁵⁵ Fourth Follow-up Report on Sweden, October 2010: <http://www.fatf-gafi.org/dataoecd/58/30/46253171.pdf>

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| | <p>thematic and specialized AML/CFT inspections.</p> <p>A special coordinating body has been established within the FI for supervision relating to the AML-CFT Act. The coordinating body comprises representatives of the Swedish Board of Supervision of Estate Agents, FI, and the National Gaming Board, the Supervisory Board of Public Accountants, the Swedish Bar Association and three county administrative boards. The coordinating body promotes efficient collaboration between the supervisory authorities and the National Police Board.</p> <p>FI's current resources are inadequate for supervising the AML-CFT compliance of more than 3,700 licensed entities. The 8 staff members are responsible for formulating AML-CFT policies and regulations, participation at international meetings, driving the special coordinating body for the supervision of both financial and nonfinancial entities, and AML-CFT supervision of all financial entities including payment service companies. Consequently, there was no active AML-CFT supervision of insurers and intermediaries in 2009 and 2010.⁵⁶ Nonetheless, the inspections of intermediaries included review of AML-CFT compliance and one intermediary was sanctioned in 2010 for con-compliance.</p> <p>FI planned to conduct another AML/CFT survey in 2011 to assess the AML/CFT risk in insurance businesses and insurance intermediaries to decide on a risk based approach to AML-CFT supervision.</p> <p>FI may exchange information with foreign supervisors. (see ICP 5). If FI has reason to suspect money laundering or terrorist financing activities, it shall notify the National Police Board without delay. (Cpt 3, s6 of AML/CFT Act).</p> <p>The number of suspicious transactions reports (STRs) filed by insurers and insurance intermediaries is very low — one in 2008, seven in 2009 and 12 in 2010. FI surmised that as some of the insurers are part of banking groups, their STRs might have been grouped with their parent banks. FI does not receive the STRs although the Swedish FIU may provide STR statistics during the interagency meetings. In any case, FI does not have the resources to analyze the STRs, e.g., to identify new typologies.</p> <p>Insurers and intermediaries may rely on third parties to conduct CDD under specified conditions, including the willingness and ability of the third party to provide CDD information and documentation, upon request. However, FI regulations are silent on whether insurers are required to obtain CDD information immediately if insurers rely on third parties, e.g., insurance intermediaries, to perform CDD.</p> |
| Assessment | Largely Observed |
| Comments | <p>Recent FATF follow-up report has noted that Sweden has taken measures to bring 18 out of the 20 recommendations previously rated partially compliant or noncompliant to at least a level equivalent to largely compliant. More supervisory resources are needed to ensure effective supervision of AML-CFT compliance by insurers' and insurance intermediaries.</p> <p>The authorities are advised to:</p> <ul style="list-style-type: none"> a) review the adequacy of resources for AML-CFT supervision; and b) update the legal requirements where insurers rely on intermediaries to perform CDD. |

⁵⁶ In 2006, FI conducted a survey of 126 financial companies on a cross-sectoral basis. Each company had to respond to approximately 80 questions concerning their AML/CFT regime. Through this exercise, FI assessed levels of compliance and the possible risks. Review of all 828 insurance intermediaries in 2006 resulted in many insurance intermediaries having to make corrections to their internal procedures for AML/CFT. In 2007, on-site inspections of three major life insurers led to corrections to their internal procedures for AML/CFT.

APPENDIX I. KEY RECOMMENDATIONS OF THE 2002 FSAP AND THEIR IMPLEMENTATION

| Recommendations | Reported Action |
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| Strengthen staff resources in order to fulfill FI's legal tasks | While staff resources have increased since 2002, more may be needed in certain areas. |
| Introduce reporting requirements on outsourcing arrangements and guidelines to auditor. Enhance licensing requirements including clarifying and extending fit and proper test to senior management/key persons of insurers. | Not implemented. FI reviews insurers outsourcing, especially in major insurers/groups. Not implemented. Requirements apply only board members and the CEO. |
| Require mandatory annual reports on risk management report by insurers | Submission is not mandatory. FI reviews such information in supervising major groups and undertakings. |
| Review the normal distribution assumption used for analyzing technical provisions of nonlife insurers. | FI's current practice is no longer dependent on any probability distribution. |
| Establish disclosure requirements for derivatives and off-balance sheet items. | Not implemented. Work is in progress. |
| Implement supervisory procedures to ensure compliance with market conduct requirements. | Compliance is part of FI's supervisory focus. Insurers have to appoint compliance officers. |
| Set up a legal basis for issuing a formal criticism. | FI is empowered to do so. |
| Enhance reporting by actuaries. | Not implemented. The role of the responsible actuary is limited by the IBA. |
| Supervise branches of Swedish insurers in the EEA. | Swedish branches in the EEA are supervised, subject to resources available. |
| Safeguard confidentiality of information shared by other supervisors. | Confidentiality is observed on a level acceptable to all parties involved. |