

Finansinspektionen's Regulatory Code

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FFFS 2000:4

Finansinspektionen's general guidelines regarding technical provision risks in insurance companies;

decided on 30 May 2000.

Finansinspektionen provides the following general guidelines.

Introduction

These general guidelines relate to the management of technical provision risks in insurance companies. They cover both direct insurance and accepted reinsurance. The general guidelines are intended to apply to non-life insurance, but also apply to life insurance where applicable.

Systems for identification, control and monitoring of technical provision risks may be designed differently in different insurance companies, taking into account the risks which are important for the company's business activities. The general guidelines are therefore formulated in general terms and allow different solutions in different companies.

These general guidelines are based on the requirement set out in Chapter 2, section 3, Chapter 3, section 2 and Chapter 19, section 1 of the Insurance Business Act (1982:713) that activities in an insurance company should be carried on in accordance with the Insurance Business Act and other statutes governing the activities of insurance companies.

The following definitions are used in these general guidelines:

- *allocation to technical provisions*: valuation of the company's liability for

1. insurance claims, management costs and other costs during the remaining term of the agreement for active insurance policies in non-life insurance business (unearned premiums and outstanding risks) and in life insurance business (life insurance provision), and

2. outstanding insurance claims arising and costs for adjusting them,

- *technical provisions risks*: risks that the company's liability may be undervalued.

Instructions for allocation for technical provisions

Section 1 The company's board of directors should ensure that instructions for allocation to technical provisions are drawn up. The instructions should be designed in such a way as to take into account differences between different risk or product groups. The instructions should also ensure that there is satisfactory

control, identification and monitoring of allocation to technical provisions and the risks associated therewith.

The instructions should be continually revised and adapted to changes affecting the company's activities.

Decision-making procedures and authorisation

Section 2 The instructions should contain decision-making procedures for establishment of reserves. Furthermore, they should contain information on the authorisations and responsibilities assigned to each role in the decision-making procedure.

Allocation to technical provisions

Section 3 For direct insurance, the instructions should clearly state how the type of claim, the anticipated insurance settlement payment and the anticipated adjustment period must be taken into account for allocation to technical provisions of insurance claims arising and reported. For example, it should be stated when and to what extent a standard amount may be used instead of an individual valuation and how standard amounts applied are to be documented.

For accepted reinsurance, the instructions should set out the principles for how information from the issuing company with regard to allocation to technical provisions shall be assessed, primarily in relation to any need to strengthen provisions.

For both direct insurance and accepted reinsurance, the instructions should state how a provision shall be calculated for insurance claims, management costs and other costs during the remaining term of the agreement for current insurance policies in non-life insurance business (unearned premiums and outstanding risks) and in life insurance business (life insurance provision).

The instructions should also clearly state what methods are to be used in the case of allocation to technical provisions of insurance claims arising but not reported.

If there is any uncertainty with regard to the company's obligation to indemnify insurance claims arising, the instructions should clearly state how such uncertainty is to be taken into account in allocations to technical provisions.

Registration

Section 4 The company should devise a system and decide on procedures for registration of insurance claims.

Insurance claims should be registered as soon as possible.

The registration should state the moment when the claim arose, anticipated insurance compensations, the time of the latest evaluation and the identity of the administrator. It should be possible to obtain a current reserve from registered information.

In the case of individual allocation to technical provisions, the register should contain information on a current reserve.

Documentation

Section 5 The instruction should state how information important for allocation to technical provisions shall be documented and otherwise processed.

Monitoring and analysis

Section 6 Procedures should exist at the company for analysing the company's allocation to technical provisions.

Allocations to technical provisions may need to be reassessed as a consequence of the fact that a certain length of time has passed since these allocations were last made. Principles and intervals for such reassessment should be set out in the instructions.

Reporting

Section 7 The company should draw up procedures to guarantee that the board of directors and the executive management receive structured, appropriate information on allocations to technical provisions and the risks associated therewith.

These general guidelines shall enter into force on 1 July 2000, whereupon Finansinspektionen's general guidelines (FFFS 1997:4) regarding technical provisions risks in the insurance companies shall be repealed.

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