

## S U M M A R Y

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## **Pension saving and benefit statements**

### **Report 2006:10**

#### **Summary**

This report is based on Finansinspektionen's audit of the benefit statements of the more than fifty life insurance companies and friendly societies offering insurance policies in Sweden. Our impression is that almost all benefit statements fulfil Finansinspektionen's requirements for the figures to be provided detailing pension fund appreciation. The most common shortcomings are related to the requirement to provide information about the costs of moving policies and reminders of the need to reassess the insurance cover for survivors.

#### **In general**

Undertakings should use this annual information as an opportunity to increase the familiarity and understanding of policyholders with the structure and workings of their insurance policies. Many policyholders do not entirely understand what their insurance policies look like when they receive their annual statement of benefits. The statement of benefits should contain a simple description. Policyholders and insured parties are not the only ones who require a benefit statement. Details of policy appreciation and fees are fundamental information that other beneficiaries should have a right to, in order to be able to ask questions and express their dissatisfaction with the running of the undertaking if necessary. Because of this all beneficiaries should receive benefit statements and other annual information.

#### **Language**

The great variation in terminology is a problem. In the interest of consumers steps must be taken to create a common vocabulary for the insurance industry. As an example "survivor benefits" should be used where there is an agreed pension and the amount of this is known when the agreement is entered into. "Repayment cover" should be limited to where the insurance savings in existence at the time of death form the basis of payments to survivors.

Another problem is that the terms used often bear no relation to everyday language. Using unambiguous words that are closer to everyday language is better than using technical terms.

### **Comparability**

Comparability should also be increased in other ways. Consumers need assistance in comparing insurance undertakings with each other and comparing the alternatives to insurance saving.

One step is to clearly describe how fees are levied, both by the insurance undertaking and, where this is the case, by the fund manager.

All fees of any significant size should be specified in order to provide a good picture of how fees are levied on the pension capital.

### **Guarantees and risks**

Of course the statement of benefits should, as now, contain reservations stipulating that bonuses are not guaranteed. We want a clear written statement that the entire bonus can be recuperated. The fact that conditional bonuses and CIU units can vary should always be described so that the policyholder can see what the financial risk is.

We believe that describing pension capital as divided into guaranteed capital and bonus should be avoided. For pension insurance it is fairer to say that:

- pension capital develops independently and is based on a current calculation which can be changed, but
- pension capital can be compared with a calculation of what future agreed pensions are worth.

If pension capital is greater than the value of future agreed pensions, this can be described as *calculated bonus* that is not guaranteed. Otherwise it should be enough to emphasise the fact that the company always underwrites the agreed pension.

### **Moving, changes etc.**

Better compliance is required with regards to providing information about the opportunities for moving insurance savings and the costs associated with moving them.

Unfortunately many of the benefits statements audited do not contain a reminder to review the insurance policy. The policyholder should be encouraged to consider whether it is still suitable. Circumstances may have changed since the insurance policy was taken out or last reviewed.

Consumers must also receive information about the action they can take if they want to change anything in the insurance policy. What can be changed depends on the type of insurance policy, but can be payment date and various types of survivor benefits for example.

## **What can Finansinspektionen do?**

It is clear that an oversight of life insurance and occupational pension information must continue to be prioritised. The study behind this report is being followed up with contacts at a company and industry level. For the occupational pension industry this work will continue throughout the year, and the report will hopefully provide the affected undertakings with guidelines as to what we see as fundamental requirements. Our regulations will be revised in the near future. However, no one needs to wait for an initiative to improve annual information or ideas that can expand the understanding of life insurance and occupational pensions. Better consumer understanding will lead to better questions regarding insurance services and contribute to a development of the insurance market.

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