Sweden: update on current issues towards Solvency II

Oct 13 2010 Per Johan Eckerberg and Katarina Rykowska

In the March 2010 update, we focused on the necessity for certain untaxed reserves, in Sweden referred to as "safety reserves", to qualify as tier one capital. This article will focus on a recently published Swedish government bill concerning the examination of internal models to calculate risk sensitive capital requirements for insurers. Before focusing on the topic at hand, however, we will briefly summarise the current status of the implementation efforts.

Implementation status

The Swedish Solvency II investigation led by Daniel Barr is still scheduled to be completed on August 31, 2011. The Swedish Financial Supervisory Authority (Finansinspektionen) is continuing to prepare for implementation of the Solvency II rules.

Internal models

The solvency capital requirement (Solvenskapitalkravet) can be calculated either by using a standard formula or by using a full or partial internal model. A prerequisite for the use of an internal model is the approval by the competent supervisory authority. In the case of an insurance group, such approval must be given by a "group supervisor" (i.e., the supervisory authority responsible for group supervision as determined in accordance with Article 247 of the Solvency II Directive), although the application is to be sent to the supervisory authority where the company is incorporated. The directive requires that the turnaround time for internal model applications may not exceed six months. The SFSA will, therefore, need additional resources to handle the work relating to the approval of the internal models.

At the end of 2009, the SFSA carried out a survey to investigate the need and demand for internal models among Swedish insurance companies. The result was that most insurance companies, the majority of which are part of insurance groups, are interested in using internal models. The approval process of internal models will be launched in the autumn of 2010, where each company prepares a "starter kit" which will be submitted to the SFSA by January 1, 2011. Between this submission and the SFSA's final assessment in October 2012 there is room for submitting a "pre-application". Once the Swedish implementation of the Solvency II Directive enters into force during the autumn of 2012 a "formal application" may be processed and approved.

The government submitted a bill on June 17, 2010 concerning the examination of internal models. The purpose of the proposed law is to enable the SFSA to preview the internal models as early as the first few months of 2011. Swedish insurers will, therefore, be able to start using the models for calculating risk-sensitive capital requirements as soon as the Solvency II capital adequacy rules are implemented in Sweden by October 31, 2012. It is important to note that the preview will not play the role of a preliminary or final decision with legal effects but rather of an informal review. The statement regarding the suitability of the internal model, which the SFSA will issue following a preview, will, therefore, not be subject to appeal. Although the SFSA's statement will not have legal effect, companies should be able to assume that the SFSA's assessment will stand when the final application is to be assessed, unless the circumstances have changed.

The costs for the suggested preview will be funded by levying fees from the insurance companies that request the preview. These "preview fees", however, shall not entail additional costs for the insurance companies that choose to join the preview process at an early stage. A "total fee" will, therefore, be introduced, including both the preview and the final examination. Regulations regarding the criteria for assessing the reliability of the models are to be issued by the government or the SFSA.

At an early stage, the Swedish Riksbank and the Swedish Insurance Federation (Sveriges Försäkringsförbund) submitted opinions on a preliminary law proposal. They believed that the proposed legislation lacked details on the criteria to be used for a preview and requested guidance for the examination in the form of primary legislation as opposed to regulations issued by the SFSA. In the bill, the legislator noted this request but stated that the basis for the review must be found, not only in the Solvency II Directive but also in the implementation measures of the commission and guidelines yet to be issued by the Committee of European Insurance and Occupational Pensions Supervisors. The SFSA should take into account all these sources of guidance in its forthcoming review of internal models.
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