

## **Insurance/Reinsurance - Sweden**

### **New Insurance Business Act**

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The Insurance Company Committee has recently proposed a legislative reform in the insurance sector in general, and the life insurance sector in particular. A new Insurance Business Act is currently in the making.

#### **Insurance Undertakings**

Insurance undertakings in Sweden may have the following legal identities:

- limited liability insurance company;
- mutual insurance company ('pure mutual'); or
- friendly society.

Swedish limited liability life insurance companies can operate either as dividend-paying companies or on a mutual basis ('hybrid companies'). Many of the major Swedish life insurers (eg, Skandia, SEB and LF) are hybrid companies. The number of dividend-paying life insurers is very limited (eg, Handelsbanken, SPP and Nordea). Two major life insurers are organized as pure mutuals (Alecta and Folksam).

#### **Regulations on Life Insurance Companies**

Under the regulations on dividend-paying limited liability life insurance companies, shareholders are responsible for the risk capital on which they may receive a dividend. Moreover, there is a clear distinction between the policyholders' funds and the shareholders' equity capital. In hybrid companies, however, the entire surplus generated by their operations accrues to the policyholders. Policyholders in pure mutuals are both owners and customers. Consequently, both hybrid companies and pure mutuals should be operated exclusively in the interests of policyholders. Similar provisions apply to friendly societies.

Several shortcomings in the provisions on life insurance undertakings have been highlighted by certain developments - namely, the harmonization of operational requirements with EU regulations, the greater latitude for products and policies following the 2000 insurance business reform, the rapid growth in financial markets and the major decline in the stock market at the beginning of the 21st century.

#### **Committee's Proposals**

These shortcomings have been particularly noticeable in the case of hybrid companies and have seriously impaired confidence in life insurance companies. In the opinion of the committee, there

are obvious corporate governance problems in a life insurance system where policyholders provide the risk capital with no genuine possibility of influence. The committee thus suggested that the position of policyholders should be strengthened in hybrid companies. In pure mutuals, active owner governance providing policyholders with genuine influence over the undertakings that they jointly own should be encouraged.

To ensure that policyholders or owners of pure mutuals can make their voices heard at general meetings, the committee proposed that each policyholder be entitled to be present in person or to appoint a representative. The committee also proposed to extend the very limited scope for provision of external capital in pure mutuals. However, the committee pointed out that injections of capital must not conflict with the internationally accepted requirement that pure mutuals may not be dependent on external stakeholders.

According to the committee, the governance problem in hybrid companies could be solved by either adopting statutes applicable to dividend-paying companies or turning hybrid companies into pure mutuals. As the committee pointed out, the adoption of a dividend-paying structure can be seen as a demutualization process which, according to the restructuring regulations in force, would require crediting policyholders with all the risk capital that is considered to belong to them (ie, all equity other than the share capital). Moreover, in some cases these regulations would require such a large infusion of capital by the owners that, in practice, it would not always be possible to comply with them. The committee thus proposed alternative procedures for demutualization - namely, turning all or part of the equity into share capital and issuing new shares to policyholders. These shares could be listed on the market or redeemed by the company pursuant to a redemption provision in the articles of association. Another possible arrangement could involve turning all or part of the equity into subordinated participating loans issued to policyholders.

The committee also proposed to extend the sectors in which friendly societies may operate; in the future, they would be able to offer all forms of direct life insurance. However, where non-life insurance is concerned (as has been the case until now), their operation will be restricted to direct sickness and accident insurance.

### Timeframe

Due to the urgent need to modernize the regulations on insurance business (in the opinion of the committee), the new Insurance Business Act should take effect as soon as possible. The committee concluded that January 1 2008 would be an appropriate date. However, according to information from the Ministry of Finance, considerable delay may occur. As regards the demutualization or transformation of hybrid companies, a grace period will be granted. However, applications for demutualization into a dividend-paying company or transformation into a pure mutual shall be filed at the Financial Supervisory Authority by December 31 2009.

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