

Guidelines for insurance operations

Insurance operations are regulated by laws and ordinances. This fact sheet describes, in brief, Swedish regulations for companies offering insurance services in Sweden.

Establishing an insurance company

In order to establish a new Swedish insurance company, the founders must apply for authorization from *Finansinspektionen (FI)*, the Swedish Financial Supervisory Authority. The application will be evaluated on the merits of the management and the owners controlling 10 percent or more of the share capital or votes, as well as the nature of the planned business and the amount of share capital.

Acquiring a Swedish insurance company

Acquisitions, both Swedish and foreign, of qualified holdings in Swedish insurance companies require a permit from the Swedish Financial Supervisory Authority. A permit must be obtained when any of the thresholds of 10%, 20% 33% or 50% of the share capital of the votes is reached.

Branch offices or general agencies

In accordance with the Foreign Insurance Activities Act ("FIAA"), an insurer domiciled within the European Economic Area (EEA) may establish an agency or branch in Sweden without prior Swedish authorization. However, this is subject to certain notification procedures involving the authorization of its home state.

Insurers domiciled outside the EEA are subject to more restrictive regulations. They may practice business in Sweden if they have obtained a license. Their business may be conducted through an agency or a branch, but only if a major deposit is made with a Swedish bank. However, agreements between Switzerland and the European Union enable Swiss non-life insurance undertakings to be authorized to establish either an agency or a branch in Sweden without a deposit.

Cross-border services

According to FIAA, undertakings domiciled within the EEA may directly market insurance in Sweden, subject to authorization by their home state and notification to the home-state authority. "Passive" provision of insurance services from the EEA (i.e. the provision of insurance services on the sole initiative of the client) is regarded as a cross-border activity and is subject to notification.

Motor insurance providers are required to appoint a Swedish claims settlement representative entrusted with the necessary powers to settle claims on behalf of the providers. In addition, motor insurers must certify that they have joined and participated in financing the Swedish Association of Motor Insurers.

Insurers domiciled outside the EEA may provide cross-border service in Sweden only through intermediation by an insurer licensed in Sweden and subject to a specific permit from the Swedish Financial Supervisory Authority. However, non-EEA insurers (but not EEA-insurers) are entitled to provide "passive" insurance services (see above).

Insurance mediation

On July 1, 2005, the Swedish Insurance Mediation Act became applicable, implementing the EU Directive on Insurance Mediation (2002/92/EC). The act establishes a number of professional requirements for Swedish Financial Supervisory Authority authorization, including that the insurance or reinsurance intermediary:

- must not have been declared bankrupt;
- must have a clean police record in relation to serious criminal offences linked to crimes against property or other crimes related to financial activities, and must act conscientiously in economical matters;

- must possess the necessary general, commercial, and professional knowledge and ability; and
- must be covered by a professional indemnity insurance or some other comparable guarantee against liability arising out of professional negligence.

Under the act, only individuals of Swedish nationality 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 be able to conduct business in Sweden through the freedom to provide services or by establishing a branch. Insurance or reinsurance intermediaries outside of the EEA may only provide insurance mediation from a Swedish branch if they have obtained a license from the Swedish Financial Supervisory Authority.

Furthermore, the act also stipulates certain information requirements, which must be met prior to entering into an insurance agreement, as well as the obligations for intermediaries to comply with good commercial standards and to warn against inappropriate deals.

Business requirements for Swedish insurance companies

A Swedish insurance company may not engage in business other than insurance. However, since January 1, 2000, Swedish life insurance companies have been able to combine unit-linked life insurance business with regular life insurance business. Furthermore, both life and non-life insurance companies may provide short-term health and accident insurance.

Swedish insurance companies must meet specific requirements of stability and liquidity, and have control over insurance, investment and business risks. The business shall also be conducted at a specified professional level and claims shall be handled in good order with fair settlements. The Swedish Financial Supervisory Authority is

entitled to investigate the business in order to ensure that the company meets these requirements.

Taxation of insurance

Life Insurance

Dividing life insurance into pension insurance (*pensionsförsäkring*) and endowment insurance (*kapitalförsäkring*) is done strictly for technical reasons related to the tax laws. Pension insurance premiums are tax deductible up to a specific amount. Normally, the applicable deductible limit is one half the annually adjusted base amounts. A recent government proposal lowers the deductible amount to SEK 12,000. Amounts paid out from the pension insurance policy are taxed. For endowment insurance policies, it is just the opposite: premiums are not deductible and payments made from the policies are not taxed.

Life insurance companies that operate in Sweden pay a capital gains tax on the assets they manage for the insured. In calculating the capital gains tax, a standardized method is used (capital basis multiplied by the average governmental lending rate during the calendar year immediately preceding the taxation year). The yield arrived at is taxed at 15 percent for pension insurance and 27 percent for endowment insurance.

For endowment insurance with a non-Swedish company, it is the insured and not the insurance company that pays this tax.

Non-life insurance

Swedish non-life insurance companies pay corporate taxes that currently amount to 28 percent of the net from the insurance operations.

This fact sheet has been produced by the Invest in Sweden Agency in cooperation with the Swedish Insurance Federation.

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Please note that the contents of this fact sheet should be regarded as an overview of current conditions in Sweden. These may change and thereby render descriptions of laws and other frameworks inaccurate. In all individual cases we request that advice always be sought with relevant authorities, organizations and businesses on specific issues.