FIIS quick guide to

FINC + IPT

This quick insurance technique guide explains one of the most relevant administrative items in respect of insurance policies. Please contact your insurance broker if you have specific questions or check the policy conditions which are attached to your policy.

What topics are covered in these slides?

Contents

- What is non-admitted coverage?
- Why is the admitted/non-admitted distinction important?
- Solutions when non-admitted coverage is prohibited.
- What does a Financial Interest Clause (FINC)?
- What is Insurance Policy Tax (IPT)?
- Example tax allocation scheme (2 slides).

What is non-admitted coverage?

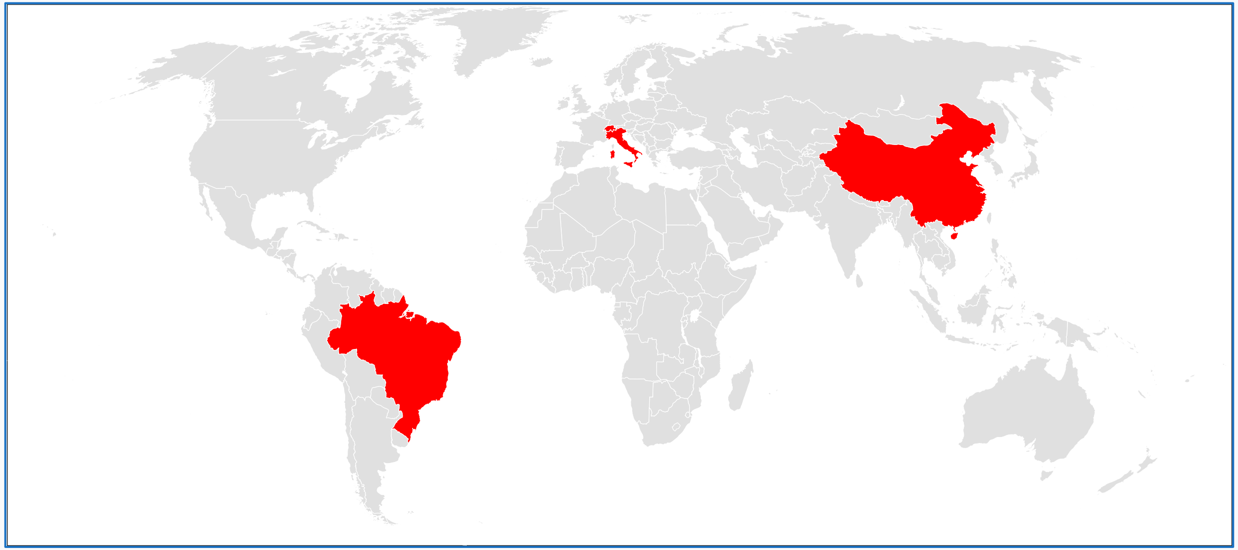
To understand non-admitted coverage we first need to have an understanding of admitted insurance coverage.

- An **admitted** insurance policy is a policy which has been issued by an insurer which is licensed / allowed to issue insurance policies by the regulator/supervisory body of the country in which the insurance company operates.
  Example: A Dutch licensed insurance company issues a policy that covers liability risks of a Dutch company.

- A **non-admitted** insurance policy is a policy which has been issued by an insurer which is **NOT** licensed / allowed to issue insurance policies by the regulator/supervisory body of the country for which the insurance policy grants coverage.
  Example: A Dutch licensed insurance company issues a policy that covers liability risks of a Chinese company.

Why is the admitted/non-admitted distinction important?

While an **admitted** insurance policy is (logically) a fully legal accepted insurance solution, **non-admitted** insurance coverage's are not permitted in all countries.
Example: in countries like China, Brazil, Switzerland and Italy non-admitted policies are **prohibited**.



Solutions when non-admitted coverage is prohibited

For companies which have operations in the countries where **non-admitted** insurance coverage is not allowed the following solutions are available:

- Local policy (full limit)
  Purchase a local in those specific countries, either as part of an international insurance program or on a standalone basis.

- FOS-coverage /FOS-policy
  While national legislation (for example in Italy) prohibits non-admitted insurance, insurers from other parts of the European Union are allowed to insure Italian based risk based on the EU treaty that enables Freedom of Services.

- Financial Interest Clause – FINC
  Endorse your policy with a FINC clause (see next slide)

What does a Financial Interest Clause (FINC)?

When an insurance policy is endorsed with a FINC clause the following changes are made to operation of the insurance:

- The local entities/insured's in the country where non-admitted coverage is prohibited are excluded from the circle of the insured’s.
- The losses in those countries are transferred into losses of the parent company (i.e. when the assets of the local company diminish the group assets automatically diminishes).
- The obligations (claims co-operation) towards the insurance company in case of a loss are transferred from the local insured (which is no longer is an insured) towards the parent company.
- The benefits from the insurance will be made payable to the parent company (policy holder).

What is Insurance Policy Tax (IPT)?

- In many countries the premium for an insurance policy is subject to the payment of insurance tax or other charges. This usually means the payment of a non-refundable tax in the form of a percentage (%) of the premium (please note that some countries/insurance classes maybe exempt from IPT).

- In case the insurance policy covers risks which are located outside the country where the policy is issued the calculation of the correct insurance tax becomes more difficult.

- Based on applicable local & EU legislation and rulings (Kvaerner 2001) the local risk definition has become (more) leading for the determination of the correct insurance policy tax.

Example tax allocation scheme

Below you will find an example allocation scheme which could typically accompany a (small) international insurance program policy (for large multinational the spreadsheets may consist of multiple worksheets).

This example is allocated based upon the number of FTE's per country. Other allocation criteria (like turnover, wages or assets under management) might be more appropriated for other companies and/or insurance types. Important is a strong relation between the chosen allocation criteria and the local risk and consistency (don't change allocation criteria every year).

Total Premium EUR 125.000,00

Country	FTE's	Non-admitted	FINC	Allocated premium	Local premium*	Master Premium	IPT	IPT amount	Master + IPT
The Netherlands	125	Permitted		EUR 45.955,88		EUR 45.955,88	21,00%	EUR 9.650,74	EUR 55.606,62
Belgium	25	Permitted		EUR 9.191,18	EUR 1.500,00	EUR 7.691,18	9,25%	EUR 711,43	EUR 8.402,61
Germany	55	Permitted		EUR 20.220,59	EUR 1.500,00	EUR 18.720,59	19,00%	EUR 3.556,91	EUR 22.277,50
Switzerland	60	Prohibited	yes	EUR 22.058,82	EUR 2.000,00	EUR 20.058,82	21,00%	EUR 4.212,35	EUR 24.271,18
China	40	Prohibited	yes	EUR 14.705,88	EUR 1.250,00	EUR 13.455,88	21,00%	EUR 2.825,74	EUR 16.281,62
USA	35	Permitted		EUR 12.867,65	EUR 1.750,00	EUR 11.117,65	**	**	EUR 11.117,65
Total	340			EUR 125.000,00	EUR 8.000,00	EUR 117.000,00		EUR 20.957,17	EUR 137.957,17

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Notes:

- **The Netherlands**
  Total premium + IPT = EUR 137.957,17 (premium master program invoiced to the Dutch parent company)
  (insurer will transfer IPT for Belgium + Germany to local tax authorities)
- **China + Switzerland**
  non-admitted prohibited + FINC applicable = IPT applicable of country policyholder (IPT The Netherlands)
- **USA**
  Insured responsible for payment IPT to local authorities
  Outside the EU insurance companies are not able to transfer IPT to local tax authorities.

THANKS

FOR

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