Q&A

QUESTION ID:
1995
REGULATION REFERENCE:
(EU) No 2015/35 - supplementing Dir 2009/138/EC - taking up & pursuit of the business of Insurance and Reinsurance (SII)
TOPIC:
Solvency Capital Requirement (SCR)
ARTICLE:
Article 140
STATUS:
Final
DATE OF SUBMISSION
24 Jul 2019
BACKGROUND OF THE QUESTION:
We have a contract with the distribution network that fixes the commissions paid to agents, this contract is valid for 15 years and can be extended until both parties renew the agreement. Because of this we consider that the payment flows derived from the commissions, which are obviously contemplated in the BEL, are not subject to any type of uncertainty and therefore should not be taken into account in the life expense risk sub-module. Is this our interpretation correct?

Question

The costs arising from the marketing of products, i.e. the commissions paid for such marketing to the commercial network, such commissions being fixed by contract without the possibility of being exchanged by either party, should they be taken into account in the Life-expense risk sub-module?

Background of the question

We have a contract with the distribution network that fixes the commissions paid to agents, this contract is valid for 15 years and can be extended until both parties renew the agreement. Because of this we consider that the payment flows derived from the commissions, which are obviously contemplated in the BEL, are not subject to any type of uncertainty and therefore should not be taken into account in the life expense risk sub-module. Is this our interpretation correct?

EIOPA answer

Article 140 of the Delegated Regulation requires that the amount of expenses taken into account in the calculation of technical provisions is stressed by 10%. Therefore, all expenses incurred in servicing insurance and reinsurance obligations should be stressed, which also includes commissions.

Article 140 of the Delegated Regulation also requires an increase of 1 percentage point to the expense inflation rate (expressed as a percentage) used for the calculation of technical provisions.

Therefore, even if all expenses should be considered in this stress, where the undertaking is using granular assumptions on expenses, i.e. identifying some expenses during the projection where inflation is not relevant, the impact for these expenses should be nil since inflation does not affect them. However, if the undertaking is projecting all expenses together or applies inflation assumptions to all expenses for best estimate valuation purposes, then it would not be possible to accurately make this granular analysis and all expenses should be stressed.