Technical annex contract boundaries

"Disclaimer: The main objective of this technical annex is to improve the level-playing-field relating to the application of the Solvency II contract boundaries. It states a list of described products for which contract boundaries are defined in relation to the information available in the product descriptions. The list is not aimed to be prescriptive as such as some more detailed descriptions might eventually result in different contract boundaries. However it should provide for a good basis on the views of the National Bank of Belgium regarding its interpretation of article 18 of the Commission Delegated Regulation 2015/35. The classes mentioned in this technical annex should be understood as the classes that are referred to in annex I of the Directive 2002/83/EC concerning life insurance."

Product description	Relevant features	Contract boundaries
Non-Life products with tacit renewal The insurance contracts have an annual maturity date. Both parties are contractually bounded until the maturity date: the policyholder is bounded to pay the premiums while the undertaking is bounded to provide the cover. The premiums cannot be amended until the maturity date, if the undertaking is willing to amend the premiums for the following year, it is obliged to do it earlier as 4 months before the coming maturity date, and otherwise after that date the tariff will remain unchanged for one more year. Both parties have the option to terminate the contract at the maturity date until three month before the maturity date, if no one took advantage of that option after that date, the contract will automatically be renewed for one more year. Both parties can terminate the contract after a claim event occurred.	**Depending on the age of the contract:** - **0m to 9m:** the undertaking can compel the policyholder to pay the premium until the coming maturity date - **9m to maturity date:** the undertaking can compel the policyholder to pay the premium until the maturity date after the coming maturity date	**Depending on the age of the contract:** - **0m to 9m:** the contract boundary is the coming maturity date - **9m to maturity date:** the contract boundary is the maturity date after the coming maturity date
Unit linked contracts (Class III): - **Without a financial guarantee** The policyholder is free to pay any amount of premiums each year. The benefits of the contract are dependent on the evolution of one or several investment funds.	The insurer does not grant any financial guarantee of benefits, nor does it provide a compensation for a specified uncertain event that adversely affects the insured person.	No future premium belongs to the contract.

Product description	Relevant features	Contract boundaries
Individual life insurance products (Class I) - **Pure endowment insurance (incl. annuities)** - **Term Life and Whole Life insurance (death coverage)** - **Endowment insurance** The amounts of the premiums are agreed upon at the inception of the contract. A financial guarantee on those future premiums is fixed. The insurer cannot cancel the contract nor reject the future premiums. The contract allows for premium increases, but does not provide a financial guarantee on these increases.	Two parts of the contract can clearly be identified: - The set of obligations and premiums for which a financial guarantee is agreed upon at the valuation date - The set of obligation and premium increases for which no financial guarantee has been agreed upon at the valuation date Both parts are equivalent in terms of risk to two contracts that could be sold separately. The boundaries of each part should be assessed separately. The undertaking has the unilateral right to amend the premium increases in such a way that the premium increases fully reflect the risks.	All the future premiums for which the amounts are contractually agreed upon at the valuation date belong to the contract. The premium increases for which no financial guarantee has been agreed upon at the valuation date do not belong to the contract.
Universal life insurance products (Class I): - **With a financial guarantee on paid premiums** ○ **Until the maturity of the contract** The policyholder is free to pay any amount of premiums each year. The financial guarantee on each future premium can be defined by the insurer at the moment of the payment of this premium. It can be defined in such a way that the expected present value of the future premium exceeds the expected present value of its costs and benefits. In case the insured person dies, the insurer will pay a death benefit which is equal to the built-up savings (deducted by the eventual withdrawals and expenses). Idem for the surrender value. The financial guarantee on the paid premiums is fixed until the maturity of the contract.	The undertaking has the unilateral right to amend any future premiums in such a way that these future premiums fully reflect the risks.	No future premium belongs to the contract.

Product description	Relevant features	Contract boundaries
Universal life insurance products (Class I): - **Regular saving part; and** - **A single premium Term Life insurance (death coverage)** The policyholder is free to pay any amount of premiums each year. In case the insured person dies, the insurer will either pay a death benefit which is equal to the maximum of the built-up savings and another minimal amount contractually defined; or a death benefit which is equal to the sum of the built-up savings augmented with another amount contractually defined. The paid premiums includes the saving part and the coverage of the term life insurance until the derecognition date of the contract. The pricing components related to future premiums can be defined by the insurer at the moment of the payment of these premiums, in such a way that the expected present value of these future premiums exceeds the expected present value of their related costs and benefits.	Two parts of the contract can clearly be identified: - The set of obligations and premiums related to the saving part - The set of obligations and premiums related to the additional death cover. Both parts are equivalent in terms of risk to two contracts that could be sold separately. The boundaries of each part should be assessed separately. For both parts: the future premiums can be amended in such a way that the risks are fully covered.	No future premium belongs to the contract for both parts.
Financing funds The policyholder is free to pay any amount of premiums each year. The insurer can amend the financial guarantee on future and paid premiums on a daily basis.	The undertaking has the unilateral right to amend any future premiums in such a way that these future premiums fully reflect the risks.	No future premium belongs to the contract. **Important note** Analogous as the Universal life insurance products (Class I) with a financial guarantee on paid premiums, which expires before the maturity of the contract.

Product description	Relevant features	Contract boundaries
Mixed classical group insurance with joined pricing (Class I): - **A pure endowment insurance; and** ○ **Priced with a "death" mortality table** - **A renewable temporary one-year term insurance** A pure endowment insurance and a renewable temporary one-year term insurance are bundled and sold together. The pure endowment part is priced with a "death" mortality table, the premiums and benefits of this part are fixed at the inception of the contract. The renewable temporary one-year term insurance can be repriced annually. If the policyholder lapses the term insurance part, then the premiums and benefits of the pure endowment part will be automatically repriced at the discretion of the insurer.	In accordance with the provisions of the Royal Decree of 14 November 2003 (article 24 §5 and 6), separately, a pure endowment insurance may not be priced with rates which are lower than those of the reference life mortality tables (MR, FR, XR) and a term insurance may not be priced with rates which are higher than the reference death mortality tables (MK, FK, XK). The survival rates of the reference life mortality tables are respectively higher than those of the reference death mortality tables, in consequence the pricing of a pure endowment product with a reference death mortality table is forbidden by law. Exceptionally, a pure endowment product may be priced with a reference death mortality table only in cases where it is bundled and priced together with a term insurance of a certain amount." It is possible to identify two parts of the contract, however the different sets of premiums and obligations attributable to each part do not correspond with the original bundled sets of premiums and obligations of the contract. One part of the contract is not equivalent in terms of risks to one contract that could be sold separately. The contract should not be unbundled **Both parts should not be unbundled!**	*Two possible cases:* **1) The premiums or benefits considered as a whole can be amended in such a way that the expected present value of the future premiums exceeds the expected present value of the future benefits and expenses:** In this case no future premium belongs to the contract. **2) The premiums or benefits considered as a whole cannot be amended in such a way that the expected present value of the future premiums exceeds the expected present value of the future benefits and expenses:** All future premiums belong to the contract. The temporary-one year term insurance should be considered to be renewed until the derecognition date of the obligation.

Product description	Relevant features	Contract boundaries
Universal life insurance products (Class I): - **With a financial guarantee on paid premiums** ○ **Which expires before the maturity of the contract** The policyholder is free to pay any amount of premiums each year. The financial guarantee on each future premium can be defined by the insurer at the moment of the payment of this premium. It can be defined in such a way that the expected present value of the future premium exceeds the expected present value of its costs and benefits. In case the insured person dies, the insurer will pay a death benefit to the designed beneficiary. This amount is equal to the built-up savings. Idem for the surrender value. The financial guarantee on the paid premiums can be amended before the maturity of the contract.	The undertaking has the unilateral right to amend any future premiums in such a way that these future premiums fully reflect the risks **Important note** Although the financial guarantee on paid premiums can also be amended, art. 18 §3(c) of the Delegated Regulation 2015/35 applies for premiums *payable* under the portfolio, not premiums that are already paid. The obligations related to the paid premiums should be projected until the maturity date, taking into account the interrelation between the changing nature of the contractual options, the policyholder behaviour and the future management actions with respect to the ability to amend the financial guarantee on the paid premiums. Undertakings willing to use a simplification by stopping the projections at the moment where the financial guarantee expires, must be able to demonstrate that the method used is proportionate in accordance with article 56 of the Delegated Regulation 2015/35.	No future premium belongs to the contract. **Important note** - Undertakings continuing the projection must able to provide a description of how the future management actions have been reflected in the calculation of the best estimate, including at least the impact of continuing the projection (cf. DR art. 23). Undertakings stopping the projection must be able to demonstrate that the proportionality principle is met, including at least the evaluation of the error introduced in the results, whether or not the error leads to a misstatement of the technical provisions, and to show that the method does not lead to an underestimation of the risks inherent in the insurance obligation (cf. DR art. 56)