



# COST SETTLEMENT PROTOCOL SANCTIONS ACT-RELATED ACTIVITIES

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## 1. BACKGROUND AND OBJECTIVE

This protocol specifies the amount and settlement method between brokers and insurers of the cost of activities carried out by brokers under the Customer Due Diligence (CDD) and Transaction Due Diligence (TDD) sections of the Sanctions Act.

Basis for this protocol “Cost settlement Sanctions Act-related activities” is the VNAB Sanctions Act Protocol – version 2.1, November 2016. All terms and definitions used in this Sanctions Act Protocol also apply to this document. This protocol states that the broker carries out the relevant activities for policies recorded in e-ABS.

The amount of the reimbursement for the Sanctions Act-related activities carried out by the broker, is determined annually by VNAB’s Executive Committee.

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## 2. COSTS AND COMPETITION

In view of the potential competition issues, VNAB developed a system of self-assessment which served as a basis for consultations with the ACM (Authority for Consumers and Markets). Thereupon the ACM approved price-fixing for the co-insurance market between brokers and insurers as to cost settlement for activities under the CDD and TDD sections of the Sanctions Act. This opened up the possibility to complete the co-insurance model by adding market averages and use it to determine an (annual) amount for the co-insurance sector.

### 3. CALCULATION MODEL: COST DETERMINATION UBO ACTIVITIES

VNAB's Financial Committee has developed a calculation model (please refer to appendix 1) for the determination of the cost of activities under the CDD and TDD sections of the Sanctions Act, which was ratified by VNAB's Executive Committee.

The calculation model includes a set of parameters resulting in an amount per policy per annum by way of reimbursement for the "CDD activities".

NB: The parameter for the amount per policy per annum by way of reimbursement for the "TDD activities" will be announced in July 2017.

The calculation model is structured as follows:

- The purchase prices for UBO searches: these are fixed (negotiated by VNAB).
- Percentage of UBOs identified in a single database search by the data provider(s).
- Activities for periodic manual inquiries (first inquiry with the customer, if required a second inquiry) about the UBO with the customer if the data are not available in the database of the data provider(s), in which case both the chargeable hours and the hourly rate can be filled in.
- Activities under the TDD section of the Sanctions Act.
- Translation of costs per relationship into costs per policy (policy density and number of relationships per policy).

All principle items have been filled in for both Benelux and non-Benelux UBOs.

The reimbursement is based on actual costs. The input for the calculation model parameters is annually determined by VNAB in collaboration with an external, independent firm (of accountants), based on the data of 6 representative brokers.

This analysis provides the following annual information for the CDD and TDD parts (as average for the policies recorded in e-ABS):

1. Hourly rate for the performance of activities
2. Average number of minutes to obtain UBO information from the customer
3. Average number of minutes to obtain and process TDD information
4. Average policy density
5. Average number of relationships per policy
6. Average number of insurers participating in a policy (information from e-ABS)

Result is an amount per policy per annum for the performance of activities under the CDD and TDD sections of the Sanctions Act. The costs are settled once a year upon placement or annual renewal of the policy.

The initial parameters for 2017 are estimated. As the external analysis by the accountant is carried out in the course of 2017 (this analysis will be carried out annually), any differences resulting from the first analysis in 2017, will be corrected with retroactive effect from 1 January 2017 by a single booking.

#### 4. COST SHARING SANCTIONS ACT-RELATED ACTIVITIES BETWEEN BROKERS AND INSURERS

Basic principle of sharing the cost of performance of the Sanctions Act-related activities is that both the broker and the insurer have a responsibility in compliance with the Sanctions Act. Based on this principle it was decided to share the costs as set out below.

Based on a (round off) average of 4 insurers per policy (source e-ABS MIS 2015), the broker bears 20 % of the costs, the remaining costs (80%) are borne by all insurers participating in the policy. In case of a 100 % share, the insurer in question pays 80 % of the costs; in case of 10 insurers participating in a policy, each insurer will be charged for 8 % the costs. The on-charged costs depend on the number of insurers participating in a policy, and not on the percentage they have underwritten. The average number of insurers on a policy is determined annually.

## 5. THE SETTLEMENT

### 5.1. HOW AND WHEN

The costs of performance of the Sanctions Act-related activities, per policy per annum, can be settled by the broker with insurers as of 1 January 2017.

Cost settlement takes place once a year via e-ABS upon placement of a new policy or otherwise upon renewal of an existing policy. Cost settlement with non-VNAB insurers participating in a policy, is carried out by the broker outside e-ABS.

#### When (not) payable

If the broker performs the activities under the Sanctions Act in accordance with the Sanctions Act Protocol and by using the Sanctiepl@tform, the insurers participating in the relevant policy, have to pay the costs to the broker in accordance with this protocol. The participating insurers do not have to reimburse the broker if:

1. the broker acts in contravention of the Sanction Act Protocol;
2. the quality of the activities is insufficient;
3. the broker fails to share the relevant data with insurer(s)
4. the broker has not fully completed the review, i.e. conducted both the CDD and the TDD parts.

## 6. BOOKING OF SANCTION COSTS IN E-ABS CLEARING

### 6.1. PRINCIPLES

1. Sanction costs can only be booked for policy files recorded in e-ABS.
2. Insurers are only obliged to pay for completed reviews that are linked to an approved placement in e-ABS.
3. Insurers are only obliged to pay for reviews conducted by brokers.
4. To ensure that the Transaction Due Diligence (TDD) checks for policy files have taken place, only completed reviews with a so-called Policy Cause are allowed to be included:
  - \* Policy – New for acceptance
  - \* Policy – Change for acceptance
  - \* Policy – Renewal
5. Sanction bookings can only be uploaded as premium template bookings with Booking type “Sanction costs” (not as regular bookings).
6. Sanction template bookings are uploaded in the 15-day-window for template bookings upon expiry of a quarter.
7. Sanction template bookings are uploaded by the broker in the form of a total sanction template booking for all policy files qualifying for reimbursement per insurer.
8. The sanction template bookings per insurer are saved in e-ABS as floating template bookings under the batch.
9. Brokers and insurers can download both the total costs per insurer or broker and the details per policy file from e-ABS MIS.

#### Amount Sanction costs 2017

For 2017 the costs per policy have as yet been set as follows:

- UBO Rate Low: € 11,03, applicable to reviews within the Benelux.
- UBO Rate High: € 14,88, applicable to reviews concerning other countries.
- Average number of insurers on a policy: 4. The average number of insurers on a policy is determined annually.
- Consequently, 1/5 of the costs is borne by the broker, 4/5 are spread equally among all participating (non-) VNAB insurers on the policy, irrespective of their shares.
- The standard amount per policy per annum for TDD is still to be determined. This will take place in July 2017.
- At the same time the definitive standard amount per policy per annum for CDD will be determined.

### 6.2. METHODOLOGY

The broker can choose between two methods to create a report/Excel file with sanction template bookings per insurer to be uploaded to the e-ABS Front Portal:

1. Download from e-ABS MIS, using the selection procedure set out in this document.
2. Upload from their own back office, according to the procedures laid down in this document.

#### *Method 1:*

##### The broker:

1. Links reviews with a Policy Cause conducted on the Sanctiepl@tform in the course of a quarter to the relevant placements in e-ABS.
2. Starts upon expiry of a quarter a process in e-ABS MIS that generates a report/Excel file with a sanction template booking per insurer for the total amount of sanction costs over the preceding quarter.
3. Uploads the report/Excel file generated under 2 above with one sanction template booking per insurer to the e-ABS Front Portal to be processed like other files with template bookings, within the 15-day window.



4. Starts upon expiry of a quarter, if inspection of details is requested, a process in e-ABS MIS that generates a report/Excel file with the booking lines of sanction costs per insurer per policy file over the preceding quarter. These booking lines show the correct amounts, based on information from the Sanctiepl@tform, for UBOs with Rate Low and Rate High.

*Method 2:*

The broker:

1. Creates upon expiry of a quarter a report/Excel file from their own back office with sanction template bookings totalised per insurer, taking into account the costs for UBOs with Rate Low and Rate High, according to the procedures laid down in this document.
2. Uploads the report/Excel file with sanction template bookings to the e-ABS Front Portal to be processed like other template bookings, within the 15-day window.
3. Starts upon expiry of a quarter, if so desired for comparison purposes, a process in e-ABS MIS that generates a report/Excel file with the booking lines of sanction costs per insurer or of sanction costs per insurer per policy file over the preceding quarter.

The insurer:

1. Processes the sanction template bookings per broker together with the other e-ABS template bookings. Identifier is Booking type "Sanction costs".
2. Can upon expiry of a quarter download the details of the sanction template bookings by starting a process in e-ABS MIS that generates a report/Excel file with the sanction costs per broker per policy file over the preceding quarter. These lines show the correct amounts, based on information from the Sanctiepl@tform, for UBOs with Rate Low and Rate High.
3. Can, if so desired, upon expiry of a quarter download a report/Excel file with the total amounts per broker of the sanction template bookings over the preceding quarter.
4. Contacts the broker if the sanction template bookings uploaded by the broker do not correspond with what the insurer expects based on 2 and/or 3 above.

Booking method:

The sanction template bookings are subject to the rules for brokerage bookings.

In the Excel file with template bookings, tab Premium bookings, this will look as follows:

Booking type*	Non-Dutch Tax spec.	Gross amount*	Gross brokerage %*	Gross brokerage*	Net amount*
Sanction costs	0.00	0.00		<Sanction costs>	-<Sanction costs>

NB: This means that field Gross brokerage % for Premium bookings with Booking type "Sanction costs" is optional.

### 6.3. PRECONDITIONS:

- The broker links the reviews with a Policy Cause on the Sanctiepl@tform to the relevant placements in e-ABS (and thereby automatically shares these with the insurers involved).
- The placement the review is linked to is, at the time of selection upon expiry of a quarter, an Approved, Active or Non-active placement. This is a precondition for booking sanction costs.
- The review with Policy Cause that is linked to the placement is, at the time of selection upon expiry of a quarter, a completed review. This ensures that the TDD part has been conducted as well.
- The review with Policy Cause that is linked to the placement has been conducted by the broker.
- The sanction costs per insurer per policy file are charged on only once a year. As changes in participation in the course of a year are not taken into account, this means that per policy file the sanction costs may only be charged once a year, regardless how many reviews have been conducted and linked, and regardless how many placements are involved. All this assuming that a policy is not selected to book sanction costs unless such sanction costs are actually booked.

### 6.4. CORRECTION CDD → CDD + TDD:

- In July 2017 Mazars will calculate the sanction costs for CDD (which may differ from current ones) and TDD, which will apply through 2018. (In July 2018 the amounts for 2019 will be determined.)
- Consequently, a single correction for TDD, and possibly for CDD, over Q1 and Q2 2017 must be included in Q3. Brokers will therefore include a sanction template booking (final settlement CDD-TDD) per insurer for the remaining amount.
- The aim is to provide automated support by generating a report/Excel file with a line for each placement from the original report/Excel file, stating as amount the difference between the (new) CDD + TDD costs and the previously charged sanction costs.
- As of Q3 the sanction costs for CDD and TDD will be included for the correct amounts.

Appendix 1: Calculation model

Appendix 2: Explanation calculation model

## 7. APPENDIX 1: CALCULATION MODEL

calculation model CDD part costs UBO activities			remarks
<b>Section 1</b>			concerns all relationships, incl. parties involved in claims
Section 1A: general principles	Benelux	Other countries	= adjustable, but applicable to everyone
purchase price UBO at D&B ex VAT	€ 1.89	€ 5.00	fill in for co-insurance
VAT	21%	21%	= result calculation
incl. VAT	€ 2.29	€ 6.05	
Section 1B: principles co-insurance	Benelux	Other countries	explanation per field
A: % UBOs from D&B	62%	62%	% UBO trails identified in 1 D&B search, market average 62%
B: UBO inquiry with customer	38%	38%	= 100% minus line 10
sub B: manual check 2 <sup>nd</sup> inquiry	66%	66%	% of B (line 11), part of B requiring manual check ico 2 <sup>nd</sup> inquiry
average policy density	2	2	average number of policies per relationship
average number of relationships per policy	2	2	relationships = number of relationships per policy requiring UBO identification
hourly rate 1	€ 50.00	€ 50.00	fill in hourly rate
hourly rate 2	€ 90.00	€ 90.00	
no. of minutes UBO inquiry with customer	20	20	fill in minutes
no. of minutes 2 <sup>nd</sup> UBO inquiry	20	20	fill in minutes
no. of minutes TDD review rate 1	2	2	fill in minutes
% TDD cases for rate 2	10%	10%	
no. of minutes TDD review rate 2	20	20	fill in minutes
Section 1C: costs UBO activities	Benelux	Other countries	without statutory surcharges, save VAT on D&B costs
<i>per relationship for 2017</i>			
D&B	€ 2.29	€ 6.05	
UBO inquiry with customer	€ 6.33	€ 6.33	
2 <sup>nd</sup> inquiry	€ 4.18	€ 4.18	
<b>total per relationship for 2017</b>	<b>€ 12.80</b>	<b>€ 16.56</b>	
<i>costs CDD part per policy for 2017</i>			
policy density	2	2	
relationships per policy	2	2	incl. parties involved in claims
<b>costs per policy CDD part for 2017</b>	<b>€ 12.80</b>	<b>€ 16.56</b>	
<i>TDD activities</i>			
TDD rate 1	€ 1.67	€ 1.67	
TDD rate 2	€ 3.00	€ 3.00	
<b>costs per policy TDD part</b>	<b>€ 4.67</b>	<b>€ 4.67</b>	
<b>total Sanctions Act costs</b>	<b>€ 17.47</b>	<b>€ 21.23</b>	

The above calculation model is explained in greater detail in Appendix 2: Explanation calculation model.

## 8. APPENDIX 2: EXPLANATION CALCULATION MODEL

### 8.1. BACKGROUND AND OBJECTIVE

These notes give more detailed information about the calculation methodology to determine the costs incurred by a broker to comply with the CDD (Client Due Diligence) and TDD (Transaction Due Diligence) sections of the Sanctions Act.

The calculation methodology is based on the VNAB Sanctions Act Protocol and performance of the Sanctions Act-related activities via the Sanctiepl@tform.

The calculation methodology includes the following items:

- The purchase price for UBO searches by Dun & Bradstreet.
- Percentage of UBOs identified in the D&B database (VNAB reports the average percentage; deviations per broker may result from the quality of customer data and/or the specific insurance portfolio).
- Activities for periodic manual UBO inquiries (first inquiry with the customer, a second inquiry if necessary) with the customer if the data are not available in the D&B database, in which case both the chargeable hours and the hourly rate can be filled in.
- Translation of costs per relationship into costs per policy (policy density and number of relationships per policy).
- Activities related to the TDD review:
  - Basic review:
    - limited time (all “Noes”)
    - further investigation: a percentage of the cases requires further investigation, possibly at a different rate.

All items can be filled in for UBO inquiries in the Benelux and in other countries, if available in the Dun & Bradstreet databases.

The costs of the CDD activities are first determined per relationship, then translated into costs per policy based on the policy density (average number of policies per relationship) and the average number of relationships per policy. Activities as part of the TDD review are by definition related to a policy, and are translated into an amount per policy per annum.

### 8.2. THE METHODOLOGY

#### *Section 1A: general principles*

3	<b>Section 1</b>			concerns all relationships, incl. parties involved in claims
4	Section 1A: general principles	Benelux	Other countries	= adjustable, but applicable to everyone
5	purchase price UBO at D&B ex VAT	€ 1.89	€ 5.00	fill in for co-insurance
6	VAT	21%	21%	= result calculation
7	incl. VAT	€ 2.29	€ 6.05	

This section is completed in advance and relates to the purchase price for a UBO search by Dun & Bradstreet. The VAT on the purchase price is included in this section.

Section 1B: principles co-insurance

9	Section 1B: principles co-insurance	Benelux	Other countries	explanation per field
10	A: % UBOs from D&B	62%	62%	% UBO trails identified in 1 D&B search, market average 62%
11	B: UBO inquiry with customer	38%	38%	= 100% minus line 10
12				
13	sub B: manual check 2 <sup>nd</sup> inquiry	66%	66%	% of B (line 11), part of B requiring manual check ico 2 <sup>nd</sup> inquiry
14				
15	average policy density	2	2	average number of policies per relationship
16	average no. of relationships per policy	2	2	Relationships: number of relationships per policy requiring UBO identification
17				
18	hourly rate 1	€ 50.00	€ 50.00	fill in hourly rate
19	hourly rate 2	€ 90.00	€ 90.00	
20				
21	no. of minutes UBO inquiry with customer	20	20	fill in minutes
22	no. of minutes 2 <sup>nd</sup> UBO inquiry	20	20	fill in minutes
23	no of minutes TDD review rate 1	2	2	fill in minutes
24				
25	% TDD cases for rate 2	10%	10%	
26	no of minutes TDD review rate 2	20	20	fill in minutes

Line 10: percentage UBOs from D&B: this concerns the percentage of UBOs fully identified in a single search of the D&B database. VNAB will annually report the market average.

Where the UBO cannot be not identified in the D&B database, the UBO inquiry requires manual work, split up into:

- Time to request and process the UBO form.
- If required, time to request the UBO form a second time and process it.

The spreadsheet works as follows:

- Line 10: percentage of the average number of UBOs identified in the D&B database, in relation to the total number of relationships for whom a UBO has to be identified.
- Line 11: the percentage that has to be checked manually by requesting and processing a UBO form from the customer.
- Line 13: the percentage (in relation to the number of UBOs that cannot be identified in the D&B database) of the number of UBOs requiring a second, manual check in the relevant year.
- Line 15: the average policy density (average number of policies per relationship. This is of relevance, as one relationship may have multiple policies).
- Line 16: the average number of relationships per policy. This concerns the relationships (as defined in the Sanctions Act Protocol) for whom a UBO needs to be available. This includes the additional relationships whose UBO needs to be available in case of a claim payment.
- Line 18: the current hourly rate (1) for UBO activities as part of the basic activities for the TDD review.
- Line 19: the current hourly rate (2) for activities for further TDD investigation.
- Line 21: the average number of minutes per manual UBO inquiry and processing.
- Line 22: the average number of minutes it takes to make a second UBO inquiry with the customer.
- Line 23: the average number of minutes it takes to conduct the basic TDD review (all “Noes”).
- Line 25: the percentage in relation to the total number requiring further TDD investigation.
- Line 26: the average number of minutes for activities for further TDD investigation.

Section 1C: costs UBO activities for 2017

29	Section 1C: costs UBO activities	Benelux	Other countries	without statutory surcharges, save VAT on D&B costs
30	<i>per relationship for 2017</i>			
31	D&B	€ 2.29	€ 6.05	
32	UBO inquiry with customer	€ 6.33	€ 6.33	
33	2 <sup>nd</sup> inquiry	€ 4.18	€ 4.18	
34	<b>total per relationship for 2017</b>	<b>€ 12.80</b>	<b>€ 16.56</b>	
35				
36	<i>costs CDD part per policy for 2017</i>			
37	policy density	2	2	
38	relationships per policy	2	2	incl. parties involved in claims
39				
40	<b>costs per policy CDD part for 2017</b>	<b>€ 12.80</b>	<b>€ 16.56</b>	
41				
42	<i>TDD activities</i>			
43	TDD rate 1	€ 1.67	€ 1.67	
44	TDD rate 2	€ 3.00	€ 3.00	
45	<b>costs per policy TDD part</b>	<b>€ 4.67</b>	<b>€ 4.67</b>	
46				
47	<b>total Sanctions Act costs</b>	<b>€ 17.47</b>	<b>€ 21.23</b>	

This section shows the costs based on the entered data. First the costs per relationship are shown, lines 37 and 38 show the policy density and the number of relationships per policy. Line 40 states the costs per policy per annum for the CDD part, and line 45 the costs for the TDD part. Finally, line 47 shows the total costs per policy per annum.

**Remarks:**

- On the assumption that only the D&B purchase price is subject to VAT.
- All TDD aspects (number of minutes and rates) show notional amounts. Mazars will report on the subject in July.
- The amounts and figures stated in appendix 1: Calculation model and appendix 2: Explanation Calculation model, serve as example only and should be regarded accordingly.