



## Financial Services Transfer Pricing

Our services for the insurance sector

### The challenges

The insurance sector faces unprecedented opportunities and challenges. Opportunities range from expansion into new business models, type of products and services to new distribution channels/platforms. Challenges include the increasing regulatory environment, operational transformation and cost pressure as well as the low interest environment.

In addition, the OECD Base Erosion and Profit Shifting (BEPS) initiative has fundamentally changed the international tax landscape since 2015. Many jurisdictions are now in the process of revising their domestic tax regulations and treaty framework that will affect treasury arrangements.

Luxembourg also started formalizing its transfer pricing (TP) regime by transposing the latest OECD guidance and principles outlined by the OECD TP Guidelines (including an increased focus on TP documentation).

Current challenges for insurance companies from a transfer pricing perspective include:

**“The insurance industry presents a number of unique challenges to tax authorities.”**

**Discussion Draft of the Report on the Attribution of Profits to a Permanent Establishment, OECD**

## Transfer Pricing

- The overlap of the discussion on organizational and economic substance and financial capacity to bear risk;
- Impact of BEPS on the appropriateness of existing TP policies and approaches;
- Linking actuarial and tax approaches to support intra-group reinsurance transactions covering aspects of business rationale and sufficient diversification of risk portfolio and support for pricing using both direct approaches (valuation of reserves and support for ceding commission and experience refunds) and indirect (corroborative) approaches (e.g. return on capital);
- Transfer pricing approaches for investment management activities (covering remuneration via split of management fees);
- Attribution of profits, assets and free capital to insurance branches;
- Remuneration for use of intangibles (esp. trademarks) and provision of head office, back-office and management services;
- Consideration for financial guarantees; and
- Tax audit environment and documentation/defense.

### How Deloitte can support

Deloitte has supported a range of clients in the insurance sector on complex transfer pricing engagements including:

- Transfer pricing planning and policy setting for a range of core transactions in the insurance sector;
- Benchmarking and economic analysis to support the pricing of intra-group reinsurance, investment management fees, royalty rates and service fees;
- Transfer pricing risk reviews and BEPS assessments;
- Restructurings and transfer of activities (e.g. related to Brexit);
- Operationalization of new policies including legal structuring;
- Transfer pricing documentation; and
- Defense of transfer pricing policies towards tax authorities in tax audits and negotiation of (bilateral or multilateral) Advance Pricing Agreements (APA).

## Your advantage

We are distinct in our multi-disciplinary and collaborative model and the value that model brings to our clients. We take time to understand the needs and expectations of our clients and develop a pragmatic solution that considers the strategic, operational, regulatory and tax imperatives of your business.

By adding the necessary industry expertise and our experienced people focusing on the insurance sector, we understand our clients' most challenging business issues and how to solve them.

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