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Insurance Briefing June 2009.

Updates for Insurers on Solvency II, Tax
and Cost Reduction

9th June 2009

Audit • Tax • Consulting • Financial Advisory.



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Solvency II

– Dick Tulloch & Lenka Marsikova

Tax Update & Revenue Audits (PAYE Concerns)

– Conor Hynes & Sarah Connellan

Sustainable Cost Reduction

– Kieran Devery

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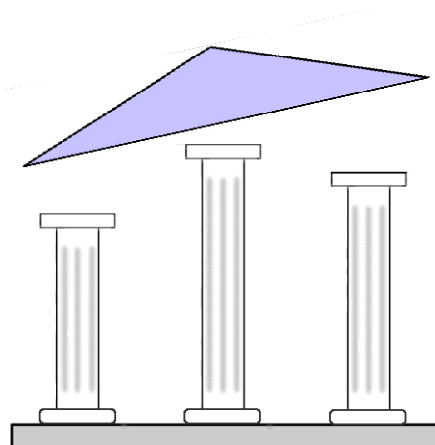
Solvency II

Dick Tulloch &
Lenka Marsikova

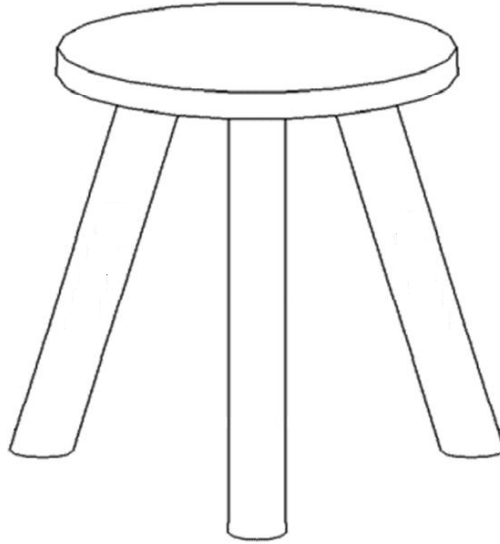


Insurance Briefing 9 June 2009 - Solvency II

What is Solvency II?

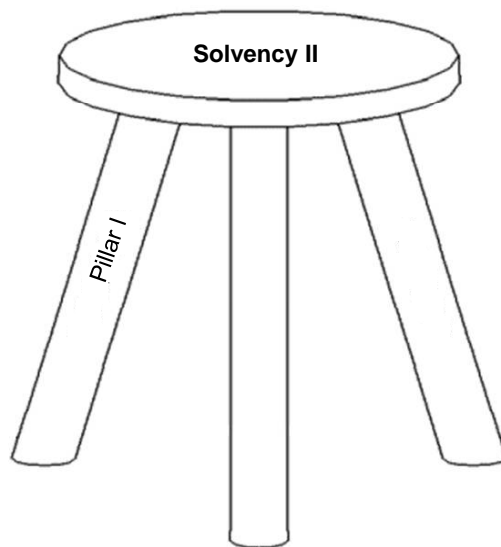


What is Solvency II?



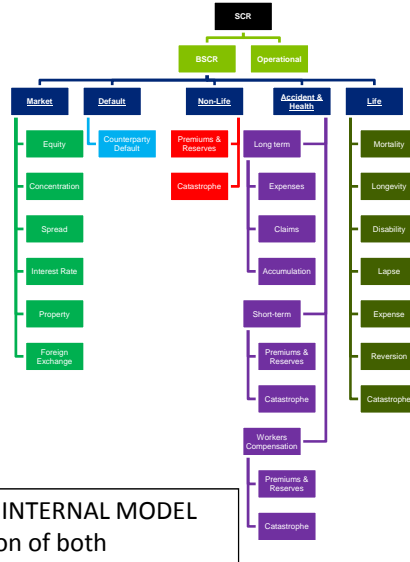
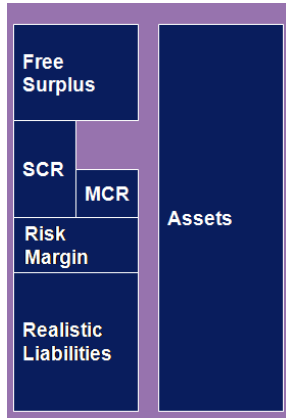
What is Solvency II?

Pillar 1 – Quantitative



Solvency II

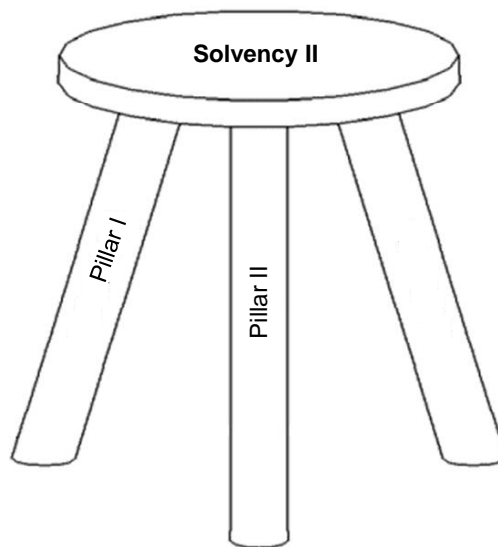
Pillar 1 – Quantitative



STANDARD MODEL v INTERNAL MODEL
or combination of both

Solvency II

Pillar 1 – Quantitative
Pillar 2 – Qualitative



Solvency II

Pillar 1 – Quantitative

Pillar 2 – Qualitative

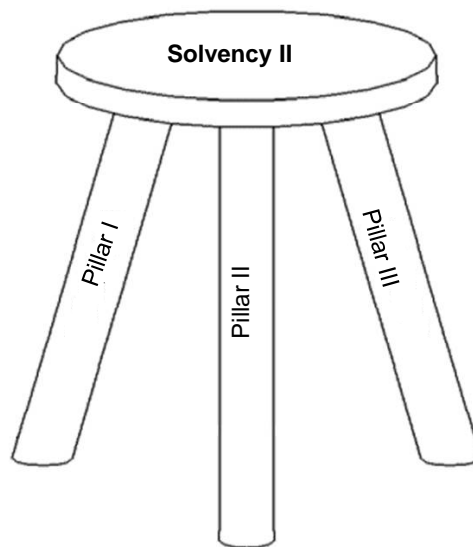


Solvency II

Pillar 1 – Quantitative

Pillar 2 – Qualitative

Pillar 3 – Market discipline

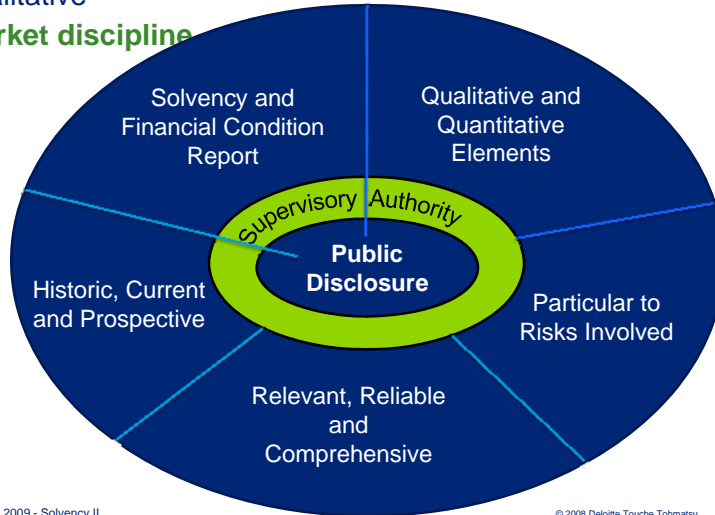


Solvency II

Pillar 1 – Quantitative

Pillar 2 – Qualitative

Pillar 3 – Market discipline

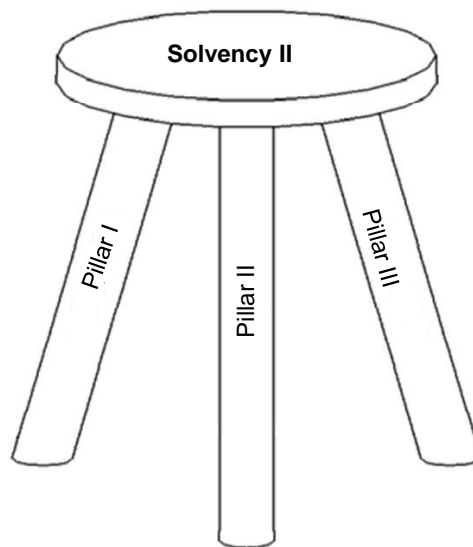


Solvency II

Pillar 1 – Quantitative

Pillar 2 – Qualitative

Pillar 3 – Market discipline



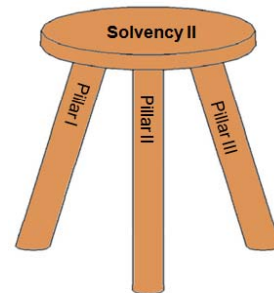
Solvency II

Level 1 – Framework Principles

Level 2 – Implementing Measures

Level 3 – Setting of Supervisory Standards

Level 4 – Monitoring of Compliance and Enforcement



Solvency II

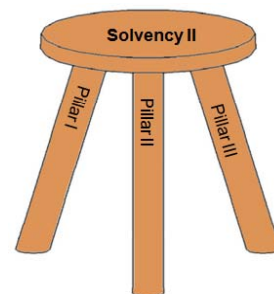
Level 1 – Framework Principles

• **5th May 2009 in place**

Level 2 – Implementing Measures

Level 3 – Setting of Supervisory Standards

Level 4 – Monitoring of Compliance and Enforcement



Solvency II

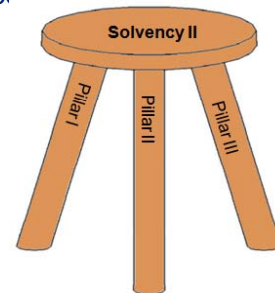
Level 1 – Framework Principles

Level 2 – Implementing Measures

- **CEIOPS Consultation papers**
- **12 currently & more due**
- **Need views from industry**

Level 3 – Setting of Supervisory Standards

Level 4 – Monitoring of Compliance and Enforcement



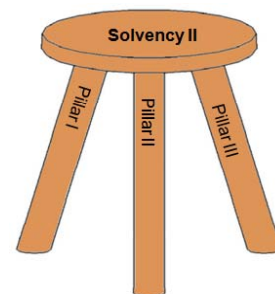
Solvency II

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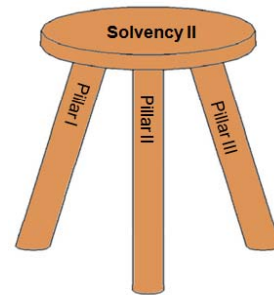
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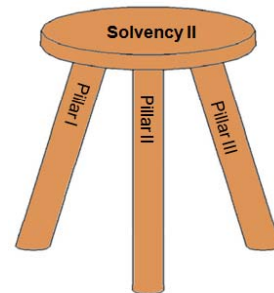
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Level 1 – Framework Principles

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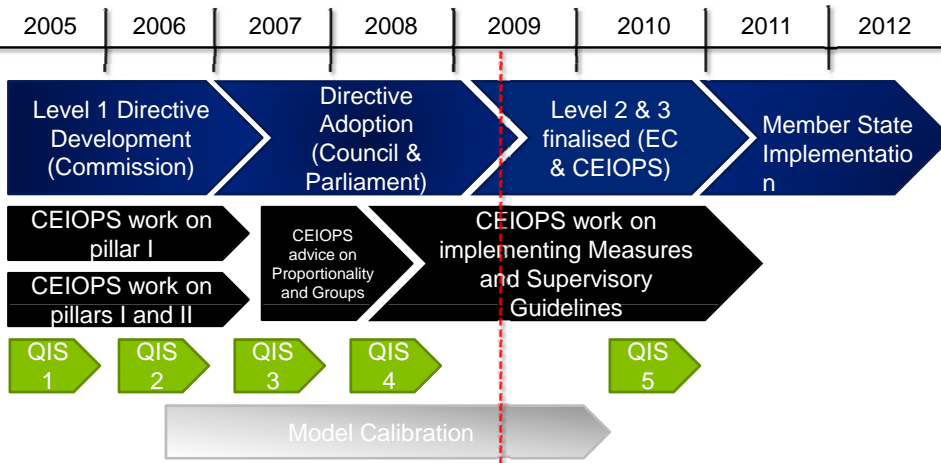
Level 3 – Setting of Supervisory Standards

Level 4 – Monitoring of Compliance and Enforcement



Solvency II

Dates and timeline



Solvency II

Deloitte offerings

Pillar I basic assessment model



Solvency II

Deloitte offerings

Pillar I basic assessment model for Non-life

- Uses Regulatory Returns
- Limited Company Specific data
- General Market based assumptions

Aims to provide

- Introduction
- Understanding
- Education
- Base for planning and prioritisation



Solvency II

Deloitte offerings

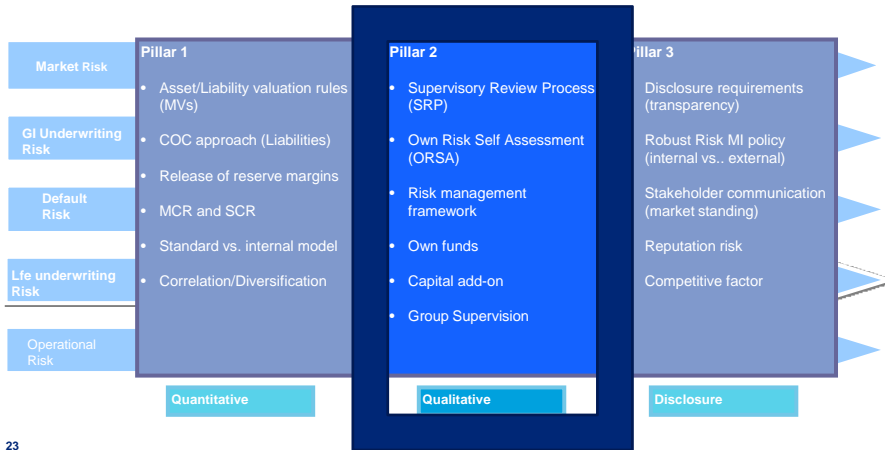
Pillar I basic assessment model

Pillar II

- Enterprise Risk Management
- Gap Analysis projects

Solvency II – Pillar II

It deals with qualitative aspects of a company's **internal controls**, **risk management** process and the approach to supervisory review. It stresses the importance of **corporate governance**.



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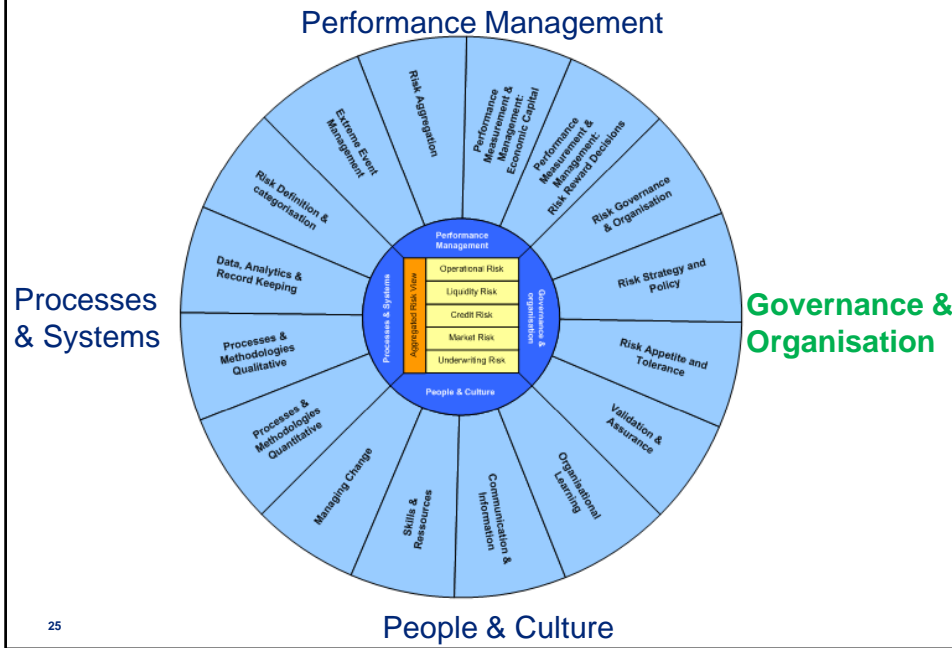
A Deloitte perspective on Enterprise Risk Management

Performance Management

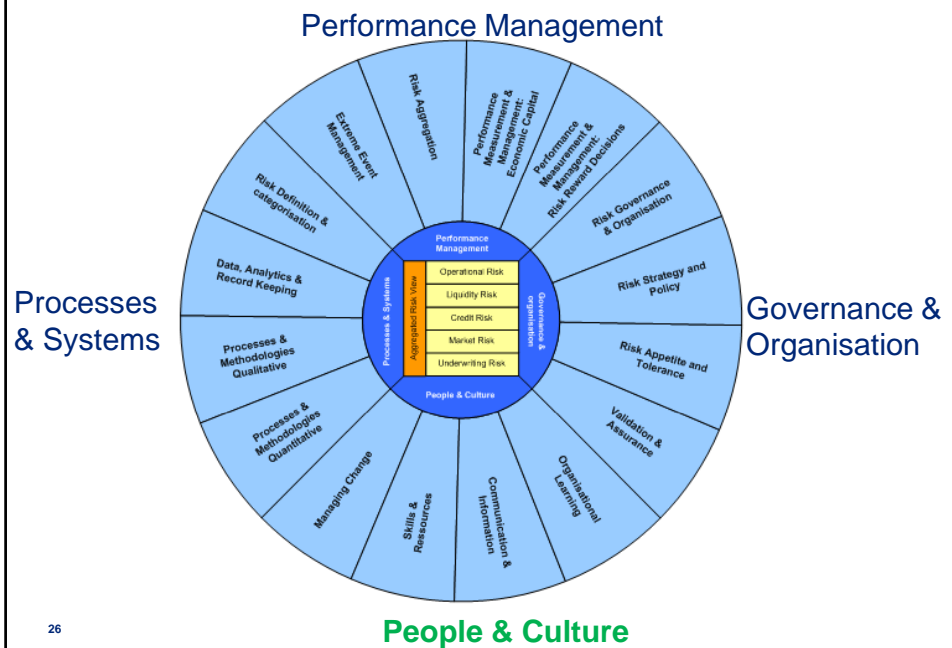


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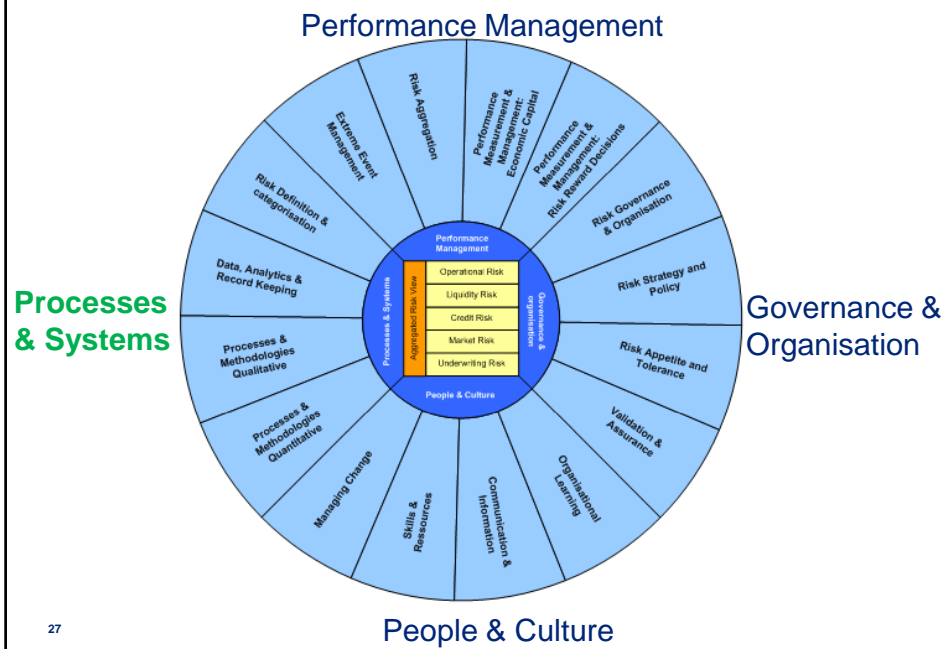
A Deloitte perspective on Enterprise Risk Management



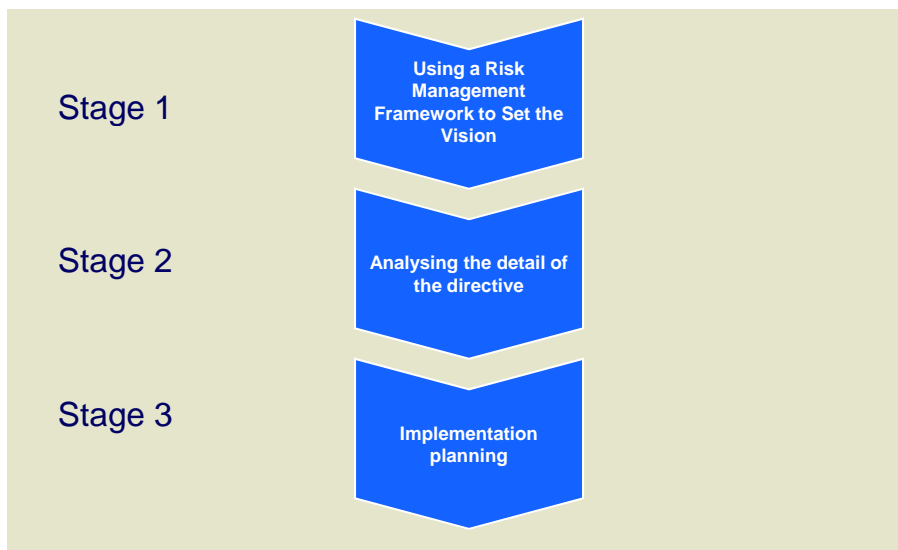
A Deloitte perspective on Enterprise Risk Management



A Deloitte perspective on Enterprise Risk Management



Solvency II - Gap Analysis



Solvency II

Deloitte offerings

Pillar I basic assessment model

Pillar II

Enterprise Risk Management

Gap Analysis projects

Solvency II

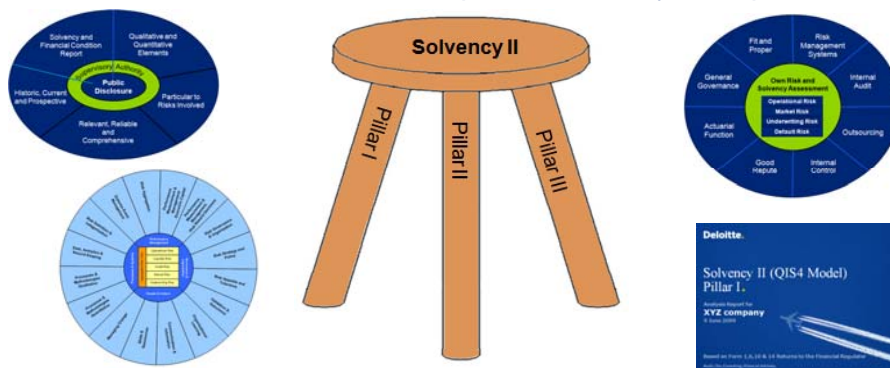
S Solvency II is a reality - implementation date: 31 Oct 2012

T Three elements of equal importance

O Organisations need to assess their own individual risk profile

O Option to use own model or part - but need to be planning now

L Last minute actions are not an option – will likely incur penalties



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**Insurance Breakfast
Briefing
Tax Update**

Conor Hynes

9 June 2009

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Intangible Assets

New regime applies to:

- (a) Any trade mark, trade name, trade dress, brand, brand name, domain name, service mark
- (b) any patent, registered design, design right or invention
- (c) any copyright or related right
- (d) know how
- (e) any licence in respect of the above intangibles
- (f) goodwill attributable to the above assets

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The Relief

Tax write off is granted as a capital allowance which is provided in line with the depreciation or amortisation for accounts purposes

Alternatively the company can elect to take the tax write off over 15 years (7% for years 1-14 and 2% for year 15)

No clawback of the capital allowances granted on a disposal of the asset, where the asset is held for more than 15 years

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Restrictions

- (1) Activities that relate to managing, developing or exploiting specified intangible assets, or
- (2) Activities that comprise of the sale of goods or services that derive the greater part of their value from such assets are treated as a separate trade

The relief for capital allowances and certain interest costs is restricted to 80% of the income from those activities

Unused allowance or interest can be carried forward and used in succeeding accounting periods

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Tax Rate on Life Products

Rate of tax on chargeable events / disposals of Irish / foreign life policies increased to 28%

Insurance Premium Tax

Life Assurance

1% rate on premiums received on or after 1 August 2009 in respect of all policies covering Irish risk

Non Life Insurance

Increase in rate from 2% to 3% for premiums received on or after 1 June 2009 in respect of offers of insurance or notices of renewals issued after 8 April 2009

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VAT

Transfer of insurance / reinsurance contracts

Advocate General Opinion issued that may become the judgement of the ECJ

Swiss Re Germany transferred reinsurance contracts to a group company in Switzerland

Advocate General's Opinion that the transfer of the reinsurance contracts is not a VAT exempt insurance / reinsurance transaction but rather a Vatable supply of services

Vatable service not a Fourth Schedule service so can't be zero rated out of Ireland or liable to VAT reverse charge when received in Ireland from abroad

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A blue rectangular background with a white street sign graphic on the right side. The signpost has two signs pointing left. The text is in yellow and white.

Sarah Connellan

Director – Employment Taxes

Revenue Audits – PAYE

9th June 2009

Revenue Audits - PAYE

- Reduced Exchequer levels
- Likelihood of a PAYE Revenue audit - high !
- Finance Act No. 2 2008
- New Penalty Regime
- Written Disclosures

PAYE – Employer Obligations

- The onus lies with employer to calculate and remit PAYE/PRSI/income levy
- Assess and value remuneration (cash and non cash)
- Section 985 TCA 2007 – withholding obligation

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PAYE Areas of Focus – Revenue Audit

- Benefits in Kind
- Business Expenses and Subsistence
- Payments to non Executive Directors
- Termination Payments
- Salary Sacrifice Arrangements

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Benefits in Kind

- Employer Obligation – 1 January 2004
- Valuation Rules
- Employers PRSI – 10.75%
- Best estimate that can reasonably be made
- Withholding pay period in which benefit provided
- Revenue Guide issued in 2004, updated guide March 2008
- Finance Act 2009

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Company Cars

- Original Market Value
- Reduction for high business miles
- 5,000 private miles
- Employee information not sufficient
- Internal control and monitoring systems

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Company Car BIK - 2009

New rules apply only to new cars provided for first time on/after
1 January 2009

Increased BIK of 35%/40% related to higher CO₂ emission cars

No change to old rules for existing cars (available at 31.12.08)

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Medical Insurance

- Tax Relief at source
- 100% Premium assessable
- Employee claims credit – where employer pays

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Provision of Taxis

- Work to home
- After 10pm before 6am
- Not home to work
- Max 60 per year

Small Benefit exemption

- One gift
- Non cash form
- Less than €250, in one tax year

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Allowable business expenses

Expenses Allowed

“in the performance of the duties”

“necessarily obliged to incur and defray”

“wholly, exclusively and necessarily”

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Reimbursement of business expenses or Subsistence

- Vouched business expenses or subsistence payments
 - Not both
- Statement of Practice - October 2007

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Acceptable Flat Rate Allowances

Civil Service Rates, issued periodically

or

Any other schedule of rates with Revenue approval

Reduced from 5 March 2009

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Normal place of work

- “Where the employee normally performs his duties”
- Employment involving regular travel
- Has the new location become normal place of work
- Case by case basis

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Claim Procedures/Records to be kept

- Date and duration of the absence
- The reason for the absence
- The location involved
- Receipt, if relevant
- Properly claimed, monitored and authorised

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Payments to Non-Executive Directors

- Public office - PAYE
- Reimbursement of business expenses
- Normal Place of Work
- Director of a number of related companies
- Non resident Directors

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Termination Payments

- Favourable Tax Treatment
 - Various Exemptions – No employers PRSI
 - Various Reliefs

For

- Payments not otherwise chargeable to tax
- Non contractual severance packages
- Calculate tax exemptions, remit PAYE/levies on taxable amount

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Salary Sacrifice

What is a salary sacrifice arrangement ?

- Definition

“Any arrangement under which an employee foregoes the right to receive any part of his or her remuneration due under his or her terms or contract of employment, and in return his or her employer agrees to provide him or her with a benefit”. (Sec. 118B TCA 1997)

- Revenue Commentary *Tax Briefing (Dec. 2008)*

Where an employee forgoes any remuneration in return for any benefit, then the legislation in relation to salary sacrifice applies... and the remuneration sacrificed is taxable in full under Schedule.

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Summary

- Onus lies with employers
- Various settlement options available, if not compliant
- Threat – Publication as a Tax Defaulter !

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Sustainable Cost Reduction

Evolve to succeed
Assess, Adapt, Advance

Kieran Devery

Tuesday, June 9, 2009



Whatever happened to the dinosaurs?

Fantastic growth story

Diversified into multiple formats

Became enormous

Environment changed rapidly

Challenge was to adapt quickly

Became extinct
(except for birds and reptiles!!)

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Our Point of View

- A Fundamental Change to Markets
- The pace of change is unprecedented
- Every sector is impacted
- Competitiveness / Capital / Management of Risk
- **Cost base must be cut**
- Sustainable cost reduction requires careful planning and alignment to business plan / strategy

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Insurance Market Challenges

Highly Challenging Environment

Economic and Regulatory Environment Factors

- Investment market losses and low returns
- Increase in operating costs i.e. salary, utilities
- New regulations introduced to give consumers minimum 15 days renewal notice
- Banking/Credit Crunch
- Property & Asset Values shrinking

Competitor and Product Factors

- Highly competitive market in Ireland
- Significant fall in 'Brand Loyalty' amongst consumers
- The NCD becomes less of a deterrent to 'claiming' in a recession
- NCD protection schemes encourages people to claim

Implications

- **Income Pressure**
 - Premiums
 - Investments
- **Claims Experience**
 - Potential increased no of claims and associated cost of handling
- **OPEX**
 - Inflationary pressure on OPEX
 - Increased administration costs

NEED TO MANAGE AND REDUCE COSTS

.....Lost competitiveness

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The need for speed

Typical Time to Realise

- Indirect Spending 1-3 Months
- Working Capital 2-4 Months
- Contractors 1-3 Months
- People Costs 4+ Months
- Investments It depends

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Immediate cost plan

- **Indirect Spending**
 - Policies and Controls
 - Nothing too small- stationary to non-essential travel
 - Do more "In House"
 - Re-negotiate
- **Review & Prioritise Capital / Project Expenditures**
- **Reduce Activity**
 - Cut non-contracted activity
 - Don't generate unnecessary inventories
 - Focus on scheduling / utilisations
 - Reduce hours / days etc
- **Payroll**
- **Engage the workforce & Implement Controls**
 - Make everyone aware of "spending" environment
 - Start at the top
 - Increase reporting and focus on costs

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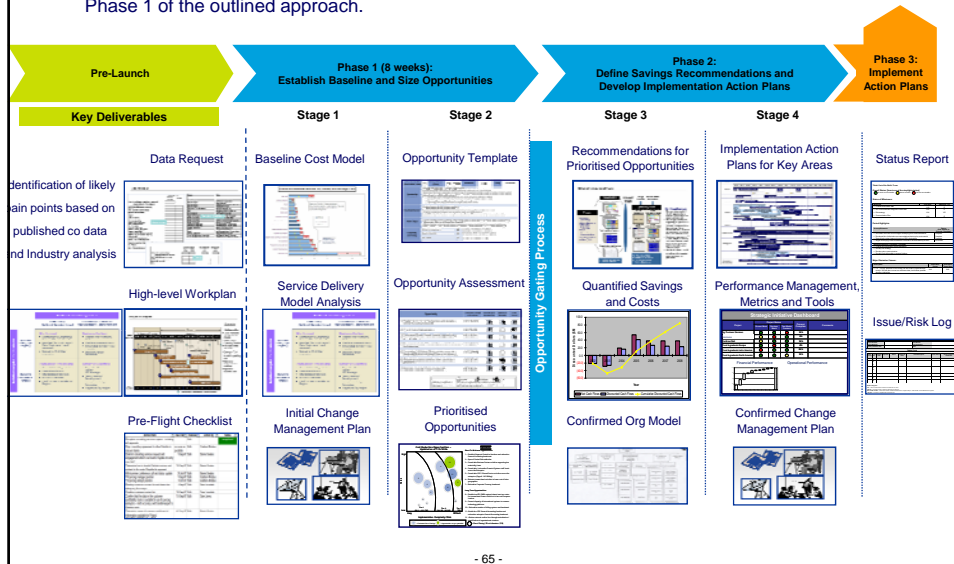
The evolve to succeed framework

	1. Assess	2. Adapt	3. Advance
Strategy & Customers	<ul style="list-style-type: none"> Scenario planning Customer retention & pipeline management Bolster management information 	<ul style="list-style-type: none"> Re-align strategy Target operation model Assess/M&A planning (including disposals) Dispute and their resolution 	<ul style="list-style-type: none"> Grow market share and earnings Talent planning and management
Operations	<ul style="list-style-type: none"> 'No Regrets' cost reduction Optimise cashflow & working capital Cost & performance review Consider workforce reduction Optimise Procurement 	<ul style="list-style-type: none"> 'Lean out' operations Third party provider risk and optimisation Align performance management Align technology Strategic Sourcing 	<ul style="list-style-type: none"> Embed enterprise risk management Strategic programme management Optimise technology
Finance & Control	<ul style="list-style-type: none"> Secure funding lines Understand risk & control supervision Assess tax opportunities 	<ul style="list-style-type: none"> Align risk management and appetite Review pension strategy Align tax strategy and approach 	<ul style="list-style-type: none"> Capital planning Embed cost management and continuous improvement Active tax planning
Stakeholder and change management			
Programme management			

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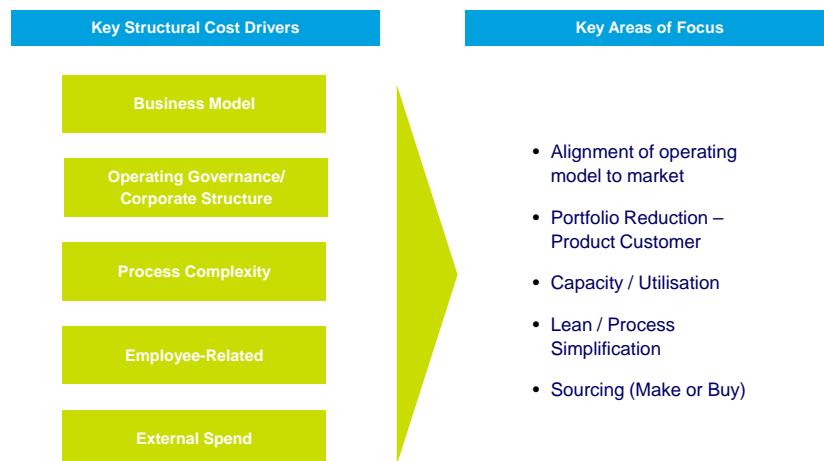
Approach for sustainable cost reduction

Our approach revolves around two distinct phases with each phase producing key deliverables needed for successful implementation of sustainable cost reduction opportunities. The current RFP would cover Phase 1 of the outlined approach.



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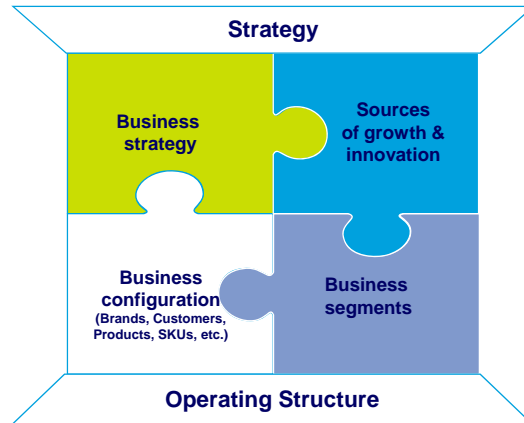
Five main areas of focus



- 66 -

Business Model - Cost reduction plans should be aligned to the business strategy

Achieving significant cost reduction requires a combination of focus & execution



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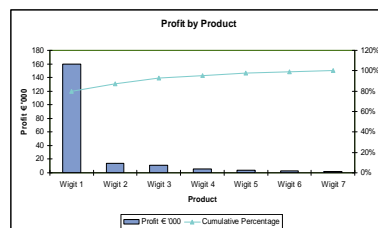
Review product and customer

Product and customer complexity can often be reduced without materially impacting volume, thereby improving profitability

Performing the review

- Complexity-related costs are difficult to address on a “one off” basis, but are easier to eliminate at a macro level
- Leading cost-conscious organisations conduct periodic rationalisation challenges of customers, products, suppliers, etc.
- Customer/process rationalisation needs to be explicitly linked to reductions in COGS, operating expenses and working capital

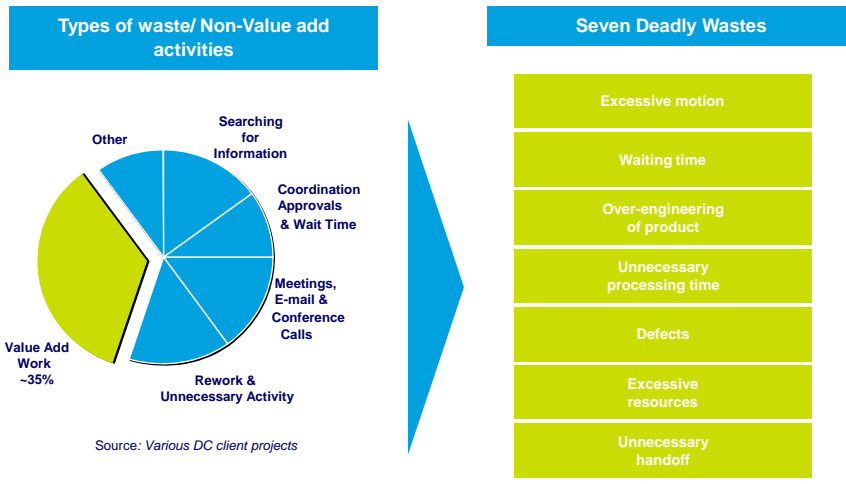
Pareto Analysis-Illustrative Example



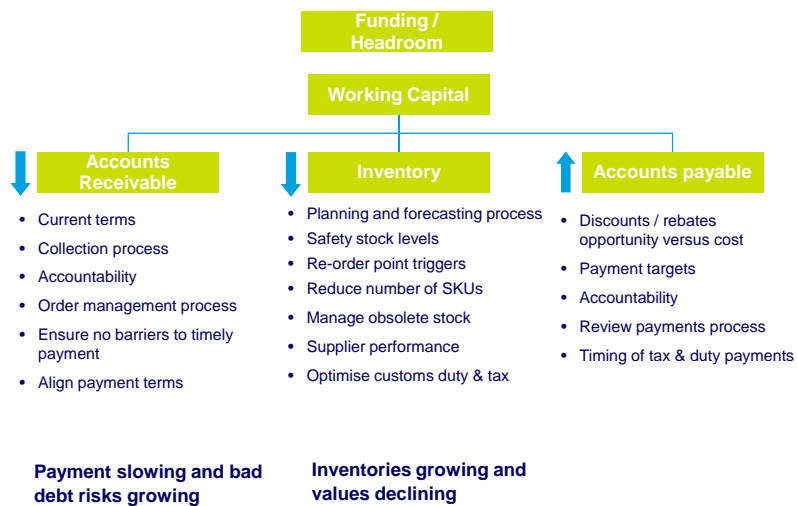
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Cost drivers: Process complexity

The General and Administrative environment contains many complexities that increase the non-value add work that is accomplished. Our approach will look at ways of reducing this non-value add work



Review working capital & risks

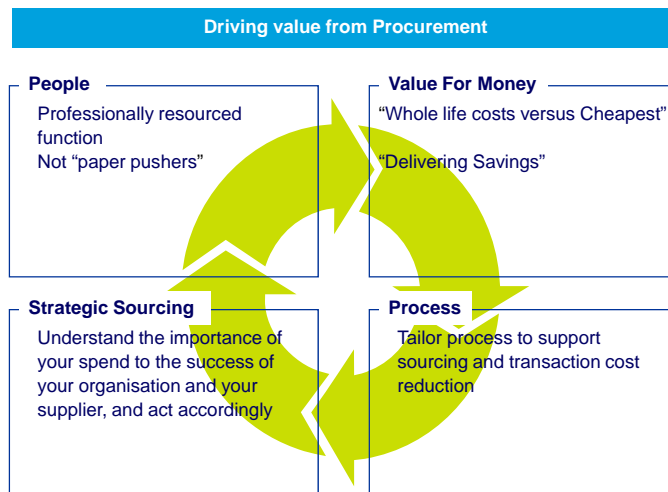


Employee-Related Costs

- Talent acquisition and management philosophy
- Compensation structures – wages, salaries, incentive compensation
- Legacy cost structures
- Sourcing opportunities
- Employee benefits philosophy
- Employee protection legislation

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Focusing on what you spend



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Value for Money

.....Better Value for Money can be achieved in a number of ways:

- Focusing on the **total cost of acquisition / whole life costs**
- Getting an increased **level or quality of service at the same cost**
- Avoiding **unnecessary purchases**
- Ensuring **users' needs are met but not exceeded**
- **Aggregating transactions to obtain value discounts**
- Specifying the **purchasing requirements in output terms**
- Sharpening the approach to **negotiations**
- Introducing **incentives** to ensure continuous quality improvements
- Developing a more effective working **relationship with suppliers**
- Reducing the **cost of purchasing** by streamlining procurement and financial processes
- Management of procurement **risk**

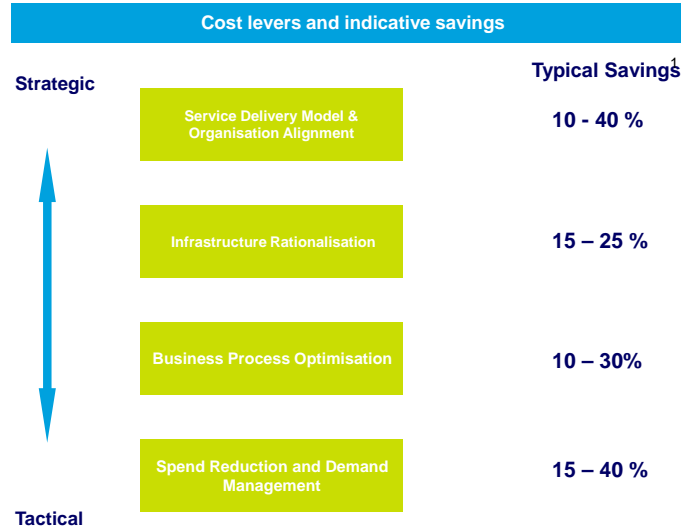
- 73 -

Cost Reduction in Insurance Companies – an Hypothesis

	Design Principles	Potential Opportunity Areas – Claims, Sales & Customer Service, Collections and Renewals
Self Service	Channel Strategy – Self Service	<ul style="list-style-type: none"> • Review Web Strategy (use of web for sales/service and claims FNOL)? • Increase self service to drive reduction in call volumes? • Drive automated PDF based claims forms? • Affinity potential
Operating Model	Consolidate 'Like' Functions	<ul style="list-style-type: none"> • Consolidate claims processing across personal lines • Consolidate processes across Claims, Sales/Service, Collections and Renewals for household and motor? • Shared Services across Group (Call Centres, Finance, HR, IT)?
	Leverage Sourcing/"Off shoring" for commodity products	<ul style="list-style-type: none"> • Opportunity to relocate additional transactional back office activity to location X? • Outsource renewal notice process (including NC information) that is now regulatory requirement?
Process Excellence	Simplification of Standard Processes	<ul style="list-style-type: none"> • More efficient and consistent provision of service? (Fragmentation?; Duplication? Standardisation? Error-rate/rework?; degree of automation?) • Increase 'One & Done' at FNOL through cash settlement – reduce complexity of managing claims fulfillment and suppliers • Six Sigma/Lean
	Remove bespoke services (unless 'cost to service' can be justified)	<ul style="list-style-type: none"> • Broker Servicing (consider segmentation)? • Standardise FNOL offering across corporate partners/brokers (align SLAs and MI)? • Reduce complexity of product and service options with corporate partners/brokers?
Location	Location utilisation and property strategy	<ul style="list-style-type: none"> • Branch Strategy (sales performance; branding; opportunity for greater leverage of branches) • Virtual Call Centres? • Head Office location/strategy?
Product	Reduce Product Complexity	<ul style="list-style-type: none"> • Product Bundling?

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Cost reduction programmes vary depending on degree of transformation, savings targeted and time horizon



¹ Percentage saved of affected baseline

Summary

Key Success Factors: Summary

Establish the Cost Base

An enterprise efficiency programme is only as good as the data on which it is based
You will need to gather and analyse detailed data on the current cost base, as well as understand the history of management decisions that have led to the current cost structure

Apply Rigorous Process

Rather than focus narrowly on staff reductions, enterprise cost reduction scours every aspect of the organisation to identify opportunities to achieve cost savings.
You need to ensure that you have a rigorous process to get the job done.

Balance Timing and Scale of Benefits

Tactical Improvements (Quick Wins) – changes and savings realised in a short period of time
Operational Efficiency (Streamlining the cost base) – delivering process, organisational and technological changes in line with corporate strategy
Strategic Redefinition (Creation of a low cost operating model) – for continued low cost operations

Ensure Senior Management Commitment

A successful enterprise efficiency programme needs to have the full commitment of senior management, which can best be communicated by appointing a prominent senior executive to lead the effort
A high quality project team will be needed to manage the programme

Engage the Business

Lack of buy-in is a common feature of unsuccessful programmes
You will need to ensure sufficient input and involvement by employees who are best placed to identify savings and will be responsible for achieving them

Generate Savings Initiatives

A variety of techniques can be used to develop a list of potential savings initiatives, including tapping management knowledge, identifying large areas of cost and its drivers, comparing level of costs across the organisation and examining leading practices both in and outside industry

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Our experience

- Big savings require hard choices
- Data and analysis are not optional
- Establish a target
- Identify opportunities for savings of 120% of target
- Set deadlines – move quickly
- Leadership commitment & preparation

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How we can help

- Advice & objective review
- Rapid reviews of working capital and business plans
- Detailed costs review and opportunities identification
- Business model design
- Implementation support
- Analytics support

Q&A

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