



Tax & Regulatory Update 2024

9 December 2024

Introduction



Agenda

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02 Solvency II Update

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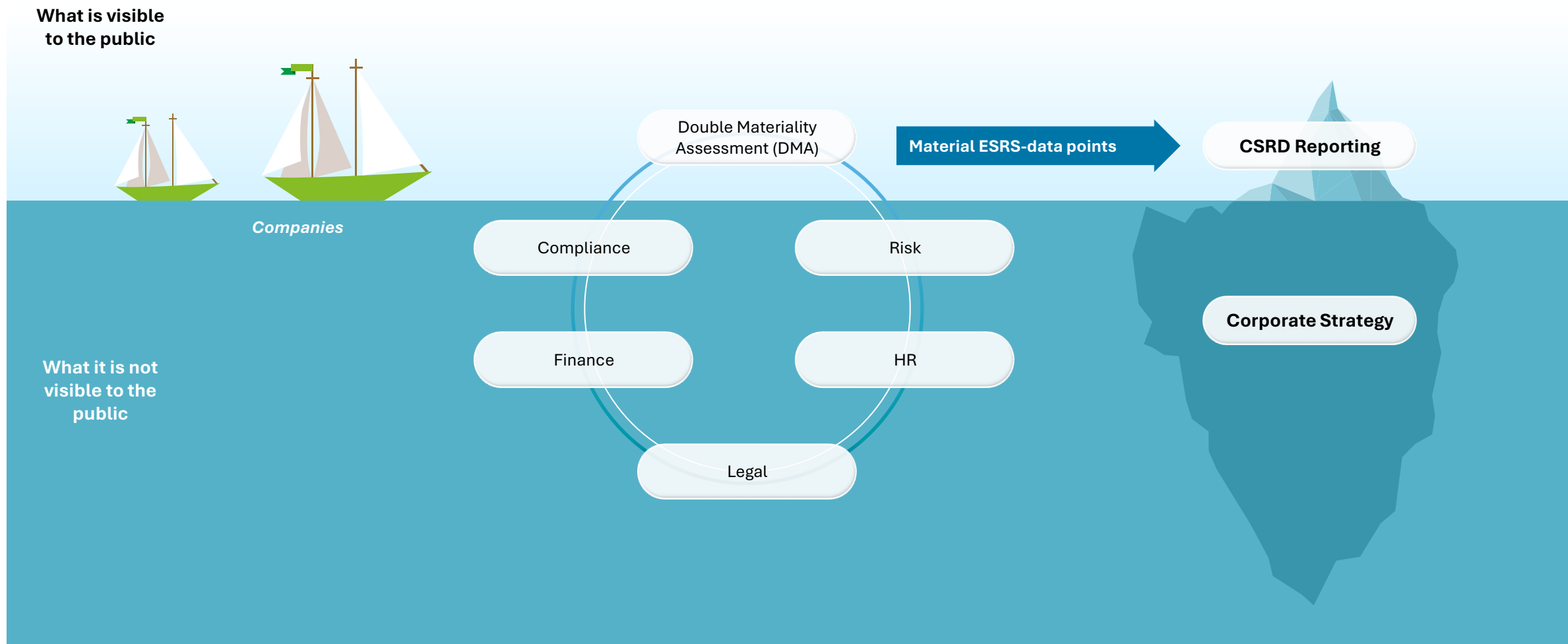
10 EU Tax Policy

01

CSRD

Beneath the surface of CSRD reporting

The main objective of CSRD is to integrate environmental, social and governance related aspects in the strategy and daily operations of each company



A reminder: What the corporate Sustainability Reporting Directive (CSRD) is



Timeline

- **2024 from 1 January 2024** for large public-interest companies (**with over 500 employees**) already subject to the NFRD and/or non-financial reporting directive, with report due in **2025**
- **2025 from 1 January 2025** for large companies (at least two of the following criteria: **more than 250 employees** and/or **€50 million in turnover** and/or **€25 million in balance sheet**) not presently subject to the non-financial reporting directive, with report due in **2026**
- **2026 from 1 January 2026** for listed SMEs and other undertakings, with report due in **2027**
- **2028 from 1 January 2028** for large non-EU entities, with report due in **2029**



Objective

This Directive requires companies to report on both their **impacts** on people and the environment and how environmental, social, and governance issues create **financial risks** and **opportunities**



Key features

- Mandatory and externally published Sustainability Report, including quantitative and qualitative information
- 12 ESRS covering a wide range of sustainability issues (e.g. Climate Change, Biodiversity & Ecosystems, Own Workforce, Business Conduct, etc.)
- Double materiality assessment (DMA)
- Mandatory (limited) assurance on reported information

Key words

CSRD, regulation that aims at modernising and strengthening the obligations concerning **ESG information** that companies need to report on

ESRS, the **European Sustainability Reporting Standards** are the EU's new enforced requirements that define the **metrics** that businesses under the scope of **CSRD must cover in their sustainability reports**. They aim at guaranteeing a comparable and reliable reporting structure

Trends on CSRD implementation from the re/insurance sector

Insight from the analysis of 16 re/insurers



Cross exco
leadership mostly
driven by the CFO



Central team
Driving consistent
Approach and
methodology



Only a third have
Completed the
DMA and gap analysis



Re/insurers deem a
range of 3 to 8 topics
as material



Entities headquarter in
Central Europe are the
most advanced in their
CSRD journey



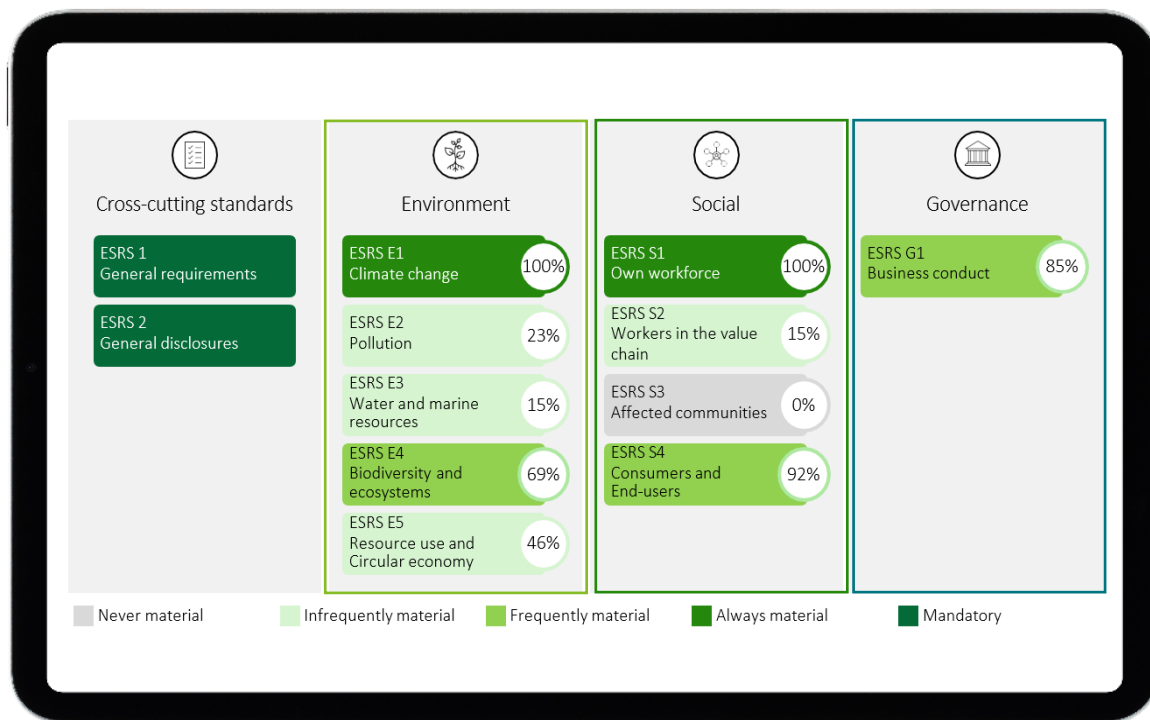
A spectrum of
Tactical and strategic
solutions for reporting

Overview of the ESRS deemed material in the re/insurance sector

Re/insurers deem a range of to 8 topics as material



There is a correlation between the number of material topics and the diversity of the business



Environmental topics

- **E1 Climate change** is always considered material
- **E2 Pollution** is considered material due to exposure to real estate and mobility sectors
- **E3 Water and marine** is considered material mainly for marine and transit underwriting
- **E5 Resource use and circular economy** is considered material mainly for investment portfolios and non-life underwriting



Social and Governance topics

- **S4 Consumers and end users** is frequently deemed material, especially because of the social inclusion sub-topic
- **G1 Business conduct** is not considered material by 12% of the sampled companies, and those that select in the EU place high importance on corruption and bribery

Reminder: going beyond CSRD

Understanding the link with EU taxonomy

What is the EU Taxonomy?

The EU Taxonomy is a **classification system** aiming at:

- Increasing the market **transparency**
- Establishing clear criteria and standards for determining the **environmental sustainability** of an economic activity
- Redirect capital towards the activities most needed for the **transition** to net zero and European Green Deal



How is it linked with CSRD?

According to [article 8 of the EU Taxonomy \(Regulation 2020/852\)](#) any entity reporting under **CSRD** has to include in their non-financial statement information on how and to what extent its economic activity are **environmentally sustainable**

What are the main regulatory obligations?

Insurance and reinsurance undertakings have to:

- Fill out the **template** of the [Annex X of the Delegated Regulation 2021/2178](#)
- Add a **methodological note** according to [Annex XI of the Delegated Regulation 2021/2178](#)
- Disclosure their exposures to **nuclear energy** and **fossil gas** related activities (if relevant) according to the template of [Annex XII of the Delegated Regulation 2021/2178](#)

CSRD scope for assurance



CSRD amends Article 34, paragraph 1, of Directive 2013/34/EU. This includes a new requirement as follows: “an opinion based on a **limited assurance engagement** as regards the compliance of this Directive, including the compliance of the sustainability reporting with the...

CSRD assurance requirements

Double Materiality Assessment

...the **process carried out by the undertaking to identify the information reported** pursuant to those sustainability reporting standards...



Metrics & disclosures

...**sustainability reporting standards** adopted pursuant to Article 29b or Article 29c...



EU Taxonomy

...and as regards the compliance with the reporting requirements provided for in **Article 8 of Regulation (EU) 2020/852;**”



Digital tagging

...and the **compliance to mark up** sustainability reporting in accordance with Article 29d,...



Limited Assurance

- **Negative assurance** conclusion
- **Nature, timing and extent of procedures** performed **is less** compared an audit engagement



The results of the assurance of sustainability report, including the opinion referred to above, are presented in an assurance report which may be included as a separate section of the audit report or in a separate assurance report.

Contacts



Bettina Werner

Partner

Advisory & Consulting

Tel. +352 45145 3516

Email: bewerner@deloitte.lu



Jeremy Pages

Partner

Audit - Insurance

Tel. +352 45145 3863

Email: jpages@deloitte.lu



Eleonora Belenghi

Consultant

Advisory & Consulting

Tel. +352 45145 2766

Email: ebelenghi@deloitte.lu



02

Solvency II Update

Solvency II review: A long journey still ongoing

How it started...

January 2016

The **Solvency II Directive** indicates that specific sections of the Directive should be reviewed by the European Commission at the latest by 1 January 2021

February 2019

European Commission **requests technical advice from EIOPA** regarding the Solvency II 2020 review

December 2020

EIOPA delivers its “**Opinion on the 2020: Review of Solvency II**” to the European Commission

Factsheet

The Factsheet paper, made of 2 pages, summarizes the main changes preconized by the EIOPA on its Opinion paper.



Opinion

The Opinion paper is the main document issued by EIOPA, it summarizes the key decisions following the analyses and impact assessment carried out in the Background document.



Background Impact Assessment

The Background “Impact Assessment” document focuses on the impact of the changes preconized by EIOPA in its Opinion paper.



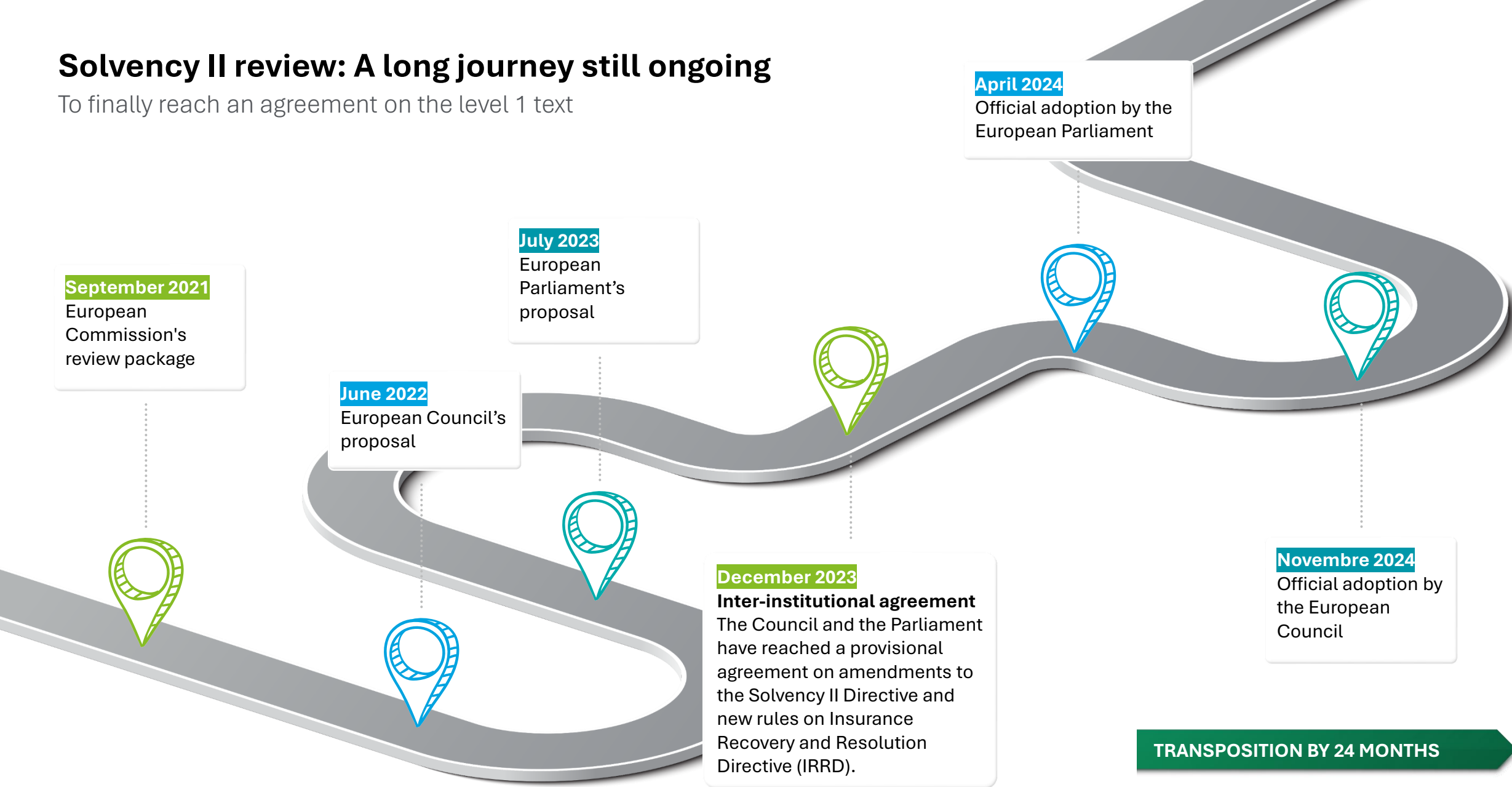
Background Analysis

The Background “Analysis” document presents extensive analysis made by EIOPA to eventually suggest modifications to be applied by the European Commission on its 2020 review of Solvency II.



Solvency II review: A long journey still ongoing

To finally reach an agreement on the level 1 text



Key amendments of the Solvency II Directive



Main Pillar I changes

- Risk margin
- Volatility adjustment
- Symmetric adjustment
- Long-term equity investments (LTEI)
- Extrapolation of risk-free interest rates
- Interest rate risk



Main Pillar III changes

- Differentiating information within the solvency and financial condition reports (SFCR) by recipients
- External audit of the SFCR (covering at least the balance sheet)
- Deadlines for submission of quantitative reporting templates (QRT), regular supervisory reports (RSR) and SFCR



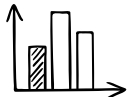
Main Pillar II changes

- Sustainability risk management
- Climate risk change scenario analysis
- ORSA requirements
- Liquidity risk management plan
- Pre-emptive recovery plans
- Cybersecurity in operational risk



Proportionality measures

- Increase of the scope exclusions
- Specific arrangements and release of requirements for small and non-complex undertakings and captives



Check out our last article
[Solvency II review](#)
December 2024



Key amendments of the Solvency II Directive

Focus on main Pillar I changes



Pillar I

Risk margin

- **The cost of capital used to calculate the risk margin has been reduced from 6% to 4.75%.** This is designed to lower the overall size of the risk margin, providing capital relief to insurers. The European Commission will periodically review the cost-of-capital parameter after five years this Directive is implemented. Then, it could be amended through the Delegated Acts **within a 4% to 5% corridor.**
- By **introducing a tapering parameter known as “lambda”**, the Solvency II review aims to progressively decrease the risk margin, particularly for long-term risks, making it less burdensome and more aligned with actual risk exposure as time passes.

$$RM = CoC * \sum_{t \geq 0} \frac{\lambda^t * SCR_t}{(1 + r_{t+1})^{t+1}}, \text{ with } CoC = 4,75\%, \quad (\lambda = 0,975?)$$

Volatility adjustment (VA)

The **VA will become subject to supervisory authorization**, and some adjustments will be implemented, such as:

- Increasing the application ratio **from 65% to 85%.**
- Establishing a credit spread sensitivity ratio (CSSR) **specific to the undertaking** (between 0 and 1) to reflect the sensitivity mismatch between the technical provisions and the assets.
- Introducing a **macro VA** for the Eurozone, which is based on a reference portfolio and could increase the initial VA

- Including the possibility of applying an **undertaking-specific adjustment** to the risk-corrected spread to capture the bonds portfolio’s specificities.

Symmetric adjustment: The Solvency II review increases the symmetric adjustment limit **from 10% to 13%**

Long-term equity investments (LTEI)

The amending Directive updates the qualifying criteria of equities (including ELTIFs and AIFs) as LTEIs, **aiming to relax capital requirements** (shock of 22% without symmetric adjustment).

Extrapolation of the risk-free interest rates

- A new method has been designed and will result in a **slower convergence to the ultimate forward rate (UFR).**
- The expected significant impact for long-term business will be smoothed using a **gradual application** until 2032 (subject to prior approval by the supervisory authority).

Interest rate risk

- The calibration of the IR shocks are amended to reflect the risk that interest rates may **further decrease even where they are low or negative** (certainly using an additive shock but details will be reflected in the delegated regulation).
- A progressive introduction of this change over a **phasing-in period of five years** is scheduled and mandatory

Key amendments of the Solvency II Directive

Focus on main Pillar II changes



Pillar II

Sustainability risk management

- As part of their risk management, undertakings should have strategies, policies, processes and systems for the identification, measurement, management and monitoring of sustainability risks over the short, medium and long term horizon.
- Undertakings should develop and monitor plans, quantifiable targets and processes to address the financial risks arising from sustainability factors, including those from the transition process towards the climate-neutrality objective.

Climate risk change scenario analysis in the Own Risk and Solvency Assessment (ORSA)

As already included in the EIOPA opinion and applicable since 2021, (re)insurance undertakings need to:

- Evaluate whether they **have any material exposure to climate change risks** and demonstrate the materiality of their risk exposure.
- If any material exposure is identified, entities will have to **specify two long-term climate change scenarios and analyze these scenarios' impact on their business**:
 1. the global temperature increase remains below 2°C; and
 2. the global temperature increase is significantly higher than 2°C.

ORSA requirements

- The Solvency II review introduces new elements to be included in the ORSA, such as an **analysis of the of the macroeconomic situation, possible macroeconomic and financial markets' developments**, and the capacity to settle

the financial obligations even under stressed conditions, among others.

1. Macroeconomic and financial markets' developments shall include at least the following:
2. the level of interest rates and spreads
3. the level of financial market indices
4. inflation
5. interconnectedness with other financial market participants
6. climate change, pandemics, other mass-scale events and other catastrophes which may affect insurance and reinsurance undertakings

Liquidity risk management plan

- (Re)insurance undertakings shall draw up and keep up to date a **liquidity risk management plan** covering liquidity analysis over the short term, projecting the incoming and outgoing cash flows in relation to their assets and liabilities.
- **When requested** by the supervisory authorities, insurance and reinsurance undertakings shall extend the liquidity risk management plan to cover also **liquidity analysis over medium and long-term**.

Cybersecurity in operational risk

The Directive introduces the obligation for firms to consider Cybersecurity in the operational risk management system.

Key amendments of the Solvency II Directive

Focus on main Pillar III changes



Pillar III

Differentiating information within the SFCR

To meet the needs of different stakeholders, the amended Directive restructures the SFCR into two parts:

- A part **primarily for policyholders and beneficiaries**, providing key information about the business, performance, capital management, and risk profile.
- A part **aimed at market professionals**, including detailed information about the business' governance system, technical provisions, solvency position, and other data relevant to specialized analysts.

External audit requirements

- The Solvency II review requires that at least the **balance sheet** disclosed in the SFCR should be subject to an audit, **except for SNCUs and captives**. Nevertheless, Member States can still apply audit requirements to all undertakings and other parts of the SFCR. The audit shall be carried out **by a statutory auditor or an audit firm, in accordance with the auditing standards applicable**.
- The insurance and reinsurance undertaking should submit a separate report, including a description of the audit's nature and results and prepared by the statutory auditor or the audit firm, together with the SFCR to the supervisory authority.

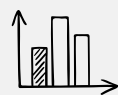
Deadlines for QRTs, RSR and SFCR submission

Due to the audit requirement on balance sheet disclosed in the SFCR, the Solvency II review **extends the reporting periods for annual submissions** as follows:

- The deadline for annual QRTs will be extended from 14 to 16 weeks;
- The deadlines for RSR and SFCR will be extended from 14 to 18 weeks; and
- The deadline for group SFCRs will be extended from 20 to 22 weeks.

Key amendments of the Solvency II Directive

Focus on proportionality measures



Proportionality measures

Exclusion thresholds from the Solvency II scope

The amending Directive excludes undertakings that meet the following criteria:

- Annual gross written premium (GWP) income does not exceed **€15 million** (previously €5 million);
- Total technical provisions, before reinsurance and special purpose vehicles, do not exceed **€50 million** (previously €25 million); and
- For undertakings that are part of a group, the group's total technical provisions, before reinsurance and special purpose vehicles, do not exceed €50 million (previously €25 million).

Exclusion thresholds from the Solvency II scope

MEASURES	APPLICABLE FOR SNCUS (INCLUDING CAPTIVES)	APPLICABLE ONLY FOR (RE)INSURANCE CAPTIVES NOT CLASSIFIED AS SNCU
Calculation of technical provisions	May use a prudent deterministic valuation to calculate the best estimate for life obligations with options and guarantees, instead of using a full stochastic model.	
Liquidity risk management plan		Exempted
Governance – key functions	Persons responsible for the key functions of risk management, actuarial and compliance may also perform any other key function different from internal audit, any other function, or be a member of the administrative, management or supervisory body.	
ORSA	ORSA will only be required every two years .	Under certain conditions , ORSA will only be required every two years .
ORSA - analysis of two climate scenarios if material exposures are identified		Exempted
ORSA - analysis of the macroeconomic conditions		Exempted
SFCR - audit of the balance sheet		Exempted
SFCR - content	May disclose only the quantitative data required.	(All captives) Under certain conditions, may disclose only the quantitative data required.
SFCR for policyholders		Exempted under certain conditions.
RSR	Only required at least every five years instead of three years.	Only required at least every five years instead of three years. Also, an exemption on an item-by-item basis is possible .

Solvency II review: A long journey still ongoing

The most interesting part is yet to come...

April 2024

2023/2024 (re)assessment of the NAT CAT standard formula

Conclusions:

- New assessment of flood catastrophe risk for Luxembourg
- Increase of hail catastrophe risk in Luxembourg

October 2024

EIOPA first batch of consultation on regulatory technical standards (RTS) and implementing technical standards (ITS)

- On liquidity risk management plans
- On exceptional sector-wide shocks
- On undertakings under dominant/significant influence or managed on a unified basis
- On scenarios for best-estimate valuations for life insurance obligations
- On enhancing the supervision of cross-border activities

November 2024

EIOPA report on Prudential Treatment of Sustainability Risk

Conclusions:

- Market risk
- Equity risk module: a dedicated supplementary capital requirement to the current equity risk calibration for fossil fuel-related stocks (+17%?)
- Credit spread risk: a dedicated supplementary capital requirement to the current spread risk calibration for fossil fuel-related stocks
- Non-life underwriting risk: no change but EIOPA suggests an extension of the prudential analysis to the solvency capital requirements for natural catastrophe risk

December 2024

EIOPA second batch of consultation

- Consultation on a report on biodiversity risk management
- Consultation on Regulatory Technical Standards on management of sustainability risks including sustainability risk plans
- Consultation on guidelines regarding the notion of diversity for the selection of the members of the administrative, management or supervisory body
- Consultation on revised guidelines on undertaking-specific parameters
- Consultation on revised guidelines on market and counterparty risk exposures in the standard formula
- Consultation on revised Implementing Technical Standards on the lists of regional governments and local authorities' exposures to whom are to be treated as exposures to the central government



- Consultation on technical advice on standard formula capital requirements for investments in crypto assets
- Consultation on the mass-lapse reinsurance and reinsurance

Contacts



Alexandre Heluin
Director
Advisory & Consulting
Tel. +352 45145 4030
Email: aheluin@deloitte.lu



Alexandre Schneider
Director
Advisory & Consulting
Tel. +352 45145 3658
Email: alschneider@deloitte.lu



Ricardo Munoz
Manager
Advisory & Consulting
Tel. +352 62138 1326
Email: rimunoz@deloitte.lu

03

IRRD

The Insurance industry will have to work on Recovery and Resolution plans for 2027

Insurance Recovery and Resolution Directive (IRRDR)



What is IRRDR ?

- **The Insurance Recovery and Resolution Directive (IRRDR)** is the framework adopted by the European Union to establish a **harmonized approach for managing the recovery and resolution** of insurance and reinsurance undertakings.
- It aims to ensure the financial stability of the insurance sector, **protect policyholders, and minimize disruptions** to the broader economy in the event of an insurer's failure.
- The IRRDR **mirrors framework in the banking sector**, known as the Bank Recovery and Resolution Directive (**BRRD**), but is tailored to the specificities of insurance businesses.

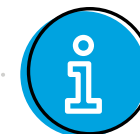


Scope

The IRRDR applies to:

- **Insurance and Reinsurance Undertakings:** All entities operating within the EU that are subject to the Solvency II Directive.
- **Cross-Border Groups:** Including both EU-based entities and branches or subsidiaries operating in multiple Member States.
- **Competent Authorities:** Regulatory bodies responsible for supervision.
- For insurance groups, **the ultimate parent undertaking is responsible** for preparing a group recovery plan.

Authorities shall ensure that at least 60% of the market is subject to the pre-emptive recovery planning and at least 40% of the market is subject to the resolution planning, based on gross technical provisions (for the life-market) and on gross written premiums (for the non-life market)



Objectives

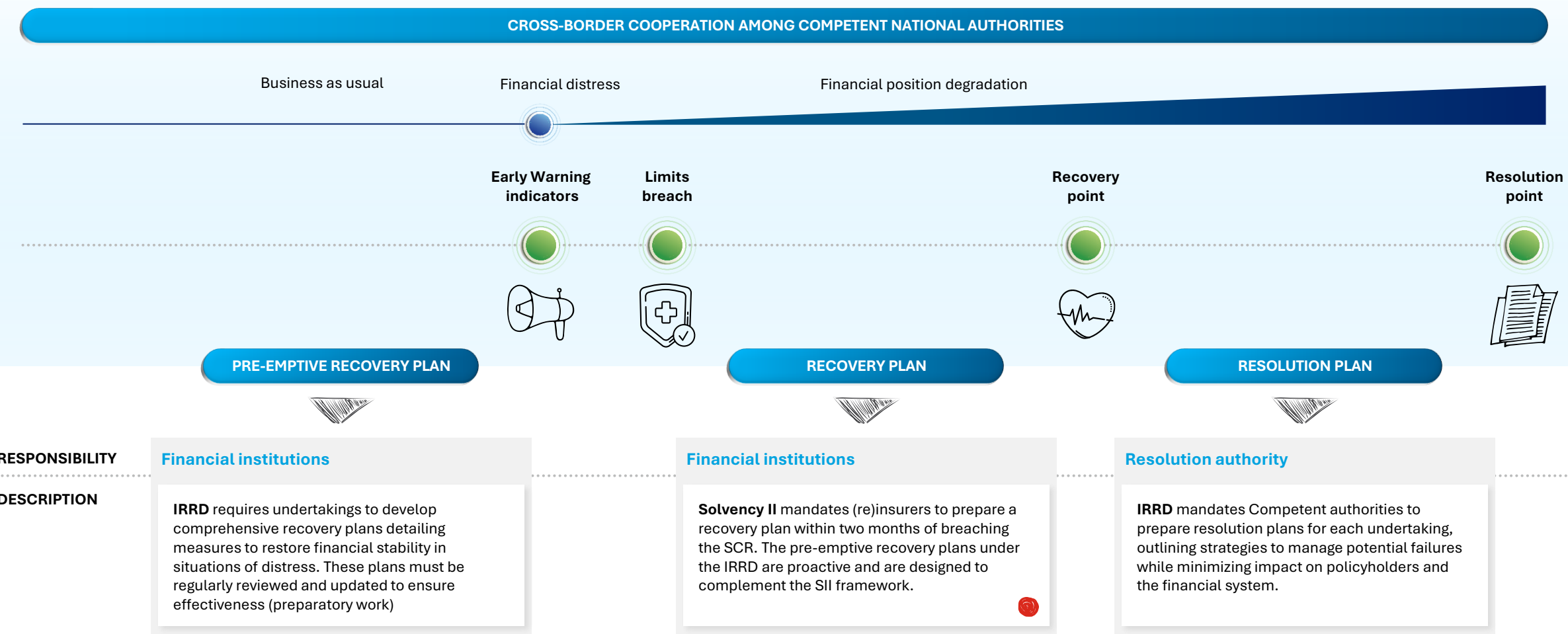
- **Ensure Financial Stability:** Create a unified framework to manage insurance failures and minimize disruptions.
- **Protect Policyholders:** Safeguard policyholder interests during times of financial distress or failure, ensuring continued access to essential services.
- **Avoid Taxpayer Bailouts:** Shift the financial burden of resolutions from taxpayers to the insurance industry, ensuring costs are borne by the undertakings themselves.
- **Harmonize EU Rules:** Align recovery and resolution frameworks across Member States.
- **Boost Cross-Border Cooperation:** Improve coordination for multinational insurance groups.

High Level Insurance and Resolution Framework

Interaction between IRRD and Solvency II



Timing perspective for the Recovery and Resolution Framework

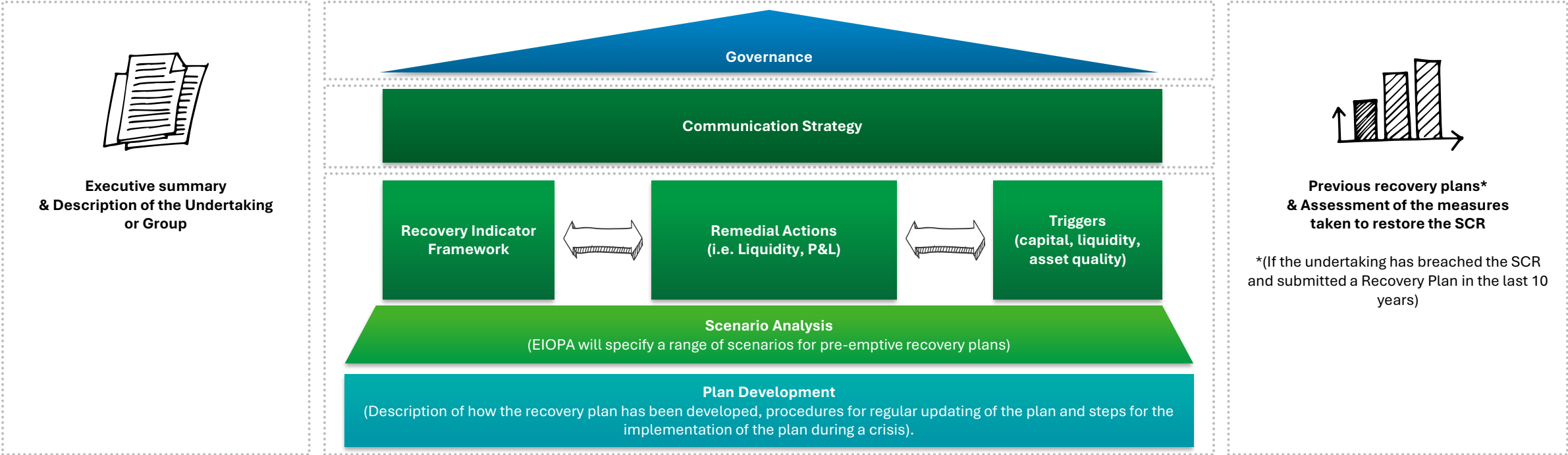


Pre-emptive Recovery Plan

The targeted structure of the Recovery Plan (To be confirmed by EIOPA guidelines)



The pre-emptive recovery plan needs to define a recovery framework which includes management actions to maintain sufficient capital and liquidity levels under severe financial stress and include all elements required in the Directive.



Frequency

The plan is maintained and updated at least every two years, or:

1. After a change to the structure of the undertaking, to its business or to its financial position which could have a material effect the plan.
2. When a material change to the financial position of the undertaking becomes foreseeable.

Contacts



Arnaud Duchesne

Managing Director

Advisory & Consulting

Tel. +352 45145 4852

Email: aduchesne@deloitte.lu



Ricardo Munoz

Manager

Advisory & Consulting

Tel. +352 62138 1326

Email: rimunoz@deloitte.lu

04

RIS

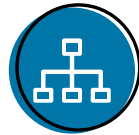
What is RIS and problems this new package is trying to solve?

Placing clients at the heart of your business

Problems



Retail investors struggle to access **relevant, comparable, and easily understandable information** to make informed investment choices



There is an increased risk that investors will be unduly **influenced by marketing** on social media and new marketing channels



Investors do not always get the best **“value for money”** as products come with high prices and questionable outcomes



Commission-based **distribution** models raise **conflict of interest** concerns



Financial advice may not always be in the best interest of retail investors



Consequences

17%

of EU **household assets** were held in **financial securities** (such as stocks or bonds) in 2021, well below US households*

40%

higher fees are paid by retail investors, compared with institutional investors (e.g., pension funds)**

45%

of Europeans are **not confident** that the investment advice they receive from **financial intermediaries** is in their best interest***

* Eurostat

** ESMA costs and performance report

*** Eurobarometer 2023

How is RIS protecting retail investors?

Measures

- 01 **Disclosures adapted** to investors' needs
- 02 **"Value for money"** requirements
- 03 **Inducement ban** for "execution-only" sales
- 04 **Financial advice** tailored to retail investors' financial situation
- 05 **Fair, clear** and **not misleading** marketing
- 06 Improved **knowledge of financial markets**
- 07 New **professional investor** eligibility criteria
- 08 Enhanced **supervisory measures**

Objectives

- 01 **Easy to access and understand information** about investment products and services and associated costs
- 02 Ensuring that product **costs are justified and proportionate**
- 03 Removing the **conflict of interest concerns**
- 04 Financial advice meeting **investors' needs and objectives**
- 05 **Investor protection** from misleading marketing
- 06 **Financial literacy** boost
- 07 Enhanced accessibility for **sophisticated investors**
- 08 Effective and **coherent application** of rules across the EU

What is the regulatory impact of RIS?

Enhanced Consumer Protection Framework



Proposal for an Omnibus Directive

IDD

Enhanced **investor protection**, through better **product governance**, more stringent rules on **conflicts of interest**, higher quality of **financial advice** and promotion of **cost-effective execution services**.



MiFID II

Enhanced **investor protection**, through better **product governance**, more stringent rules on **conflicts of interest**, higher quality of **financial advice** and promotion of **cost-effective execution services**.



UCITS

Value for money UCITS funds, with a focus on **cost transparency** and **investor protection**.

Enhanced risks and costs disclosures to **retail investors**.



AIFMD

Improved **transparency** and **comparability** of **AIFs** to become more accessible to retail investors.

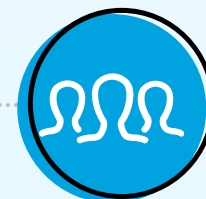
Clearer costs, charges and investment strategy disclosures.



Solvency II

Impact on **insurance companies'** investments on behalf of **policy holders**.

Emphasis on **transparent** and **value for money** products.



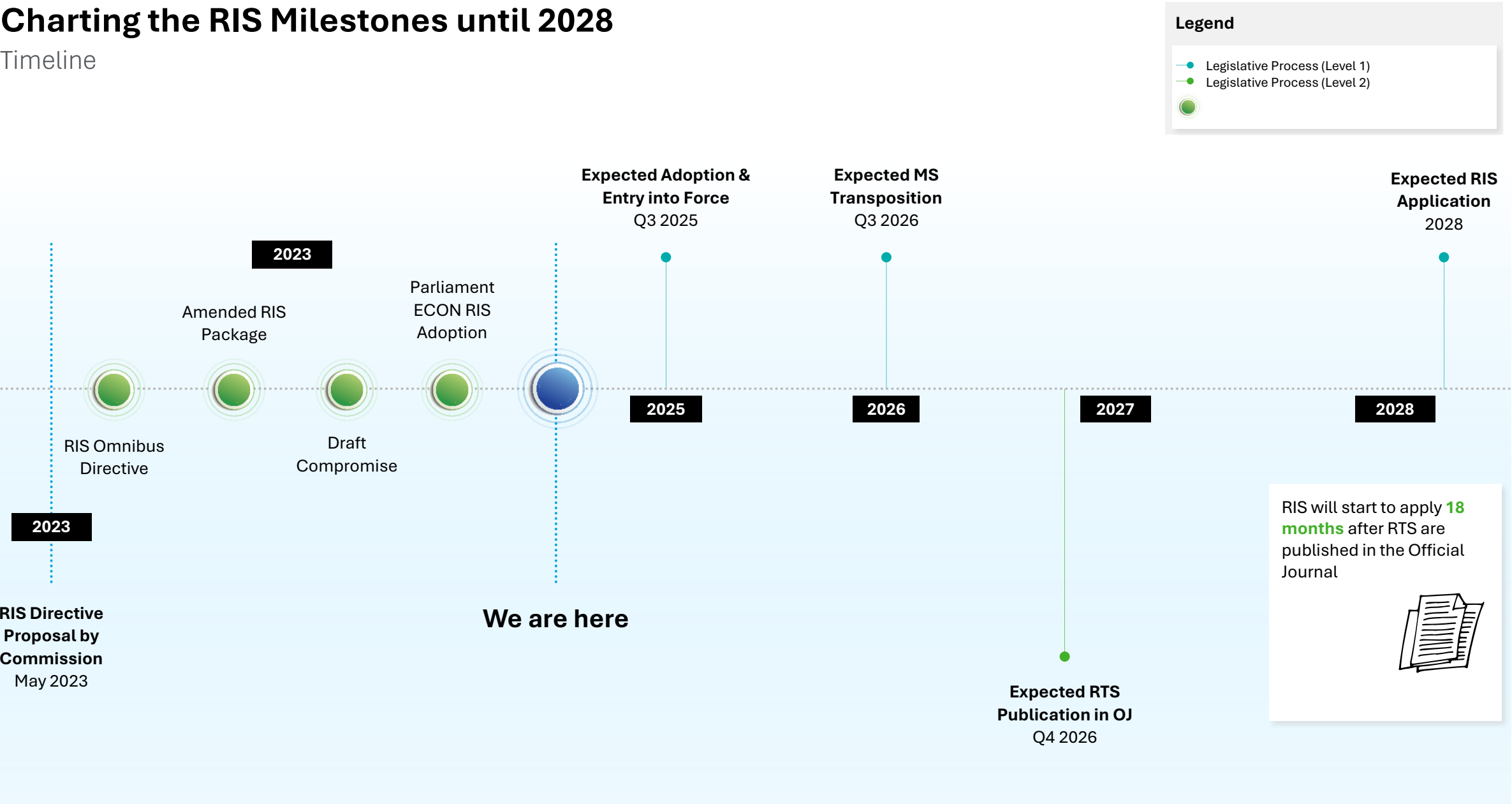
Proposal for a new PRIIPs Regulation

Modernization of the key information documents (**KID**)



Charting the RIS Milestones until 2028

Timeline



Contacts



Julien Baguet

Partner

Tax & Consulting

Tel. +352 45145 4609

Email: jbaguet@deloitte.lu



Michael Cravatte

Partner

Advisory & Consulting

Tel. +352 45145 4758

Email: mcravatte@deloitte.lu

05

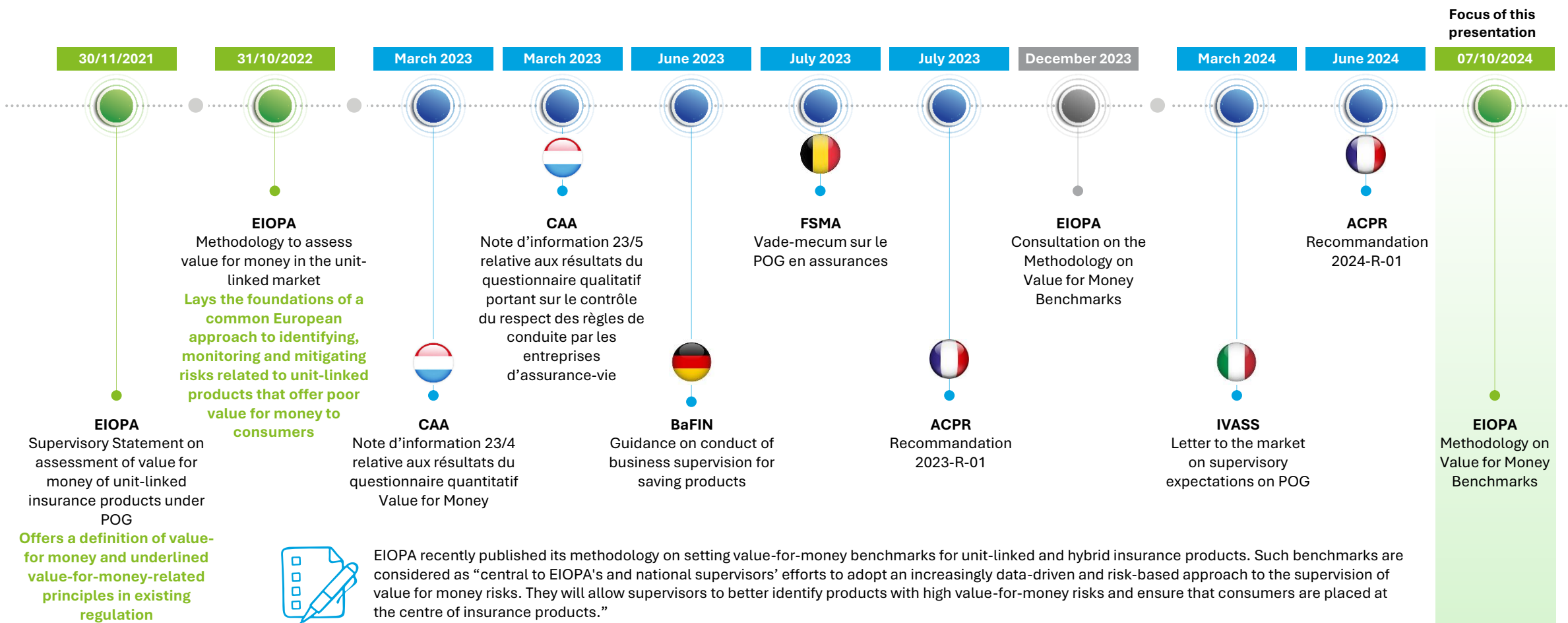
Value for money

Value for Money

An ongoing journey (for unit-linked and hybrid insurance products)



“Value for money” definition: concept to qualify products when costs and charges are proportionate to the benefits, to the identified target market as well as reasonable, taking into account the expenses born by the providers



Value for Money

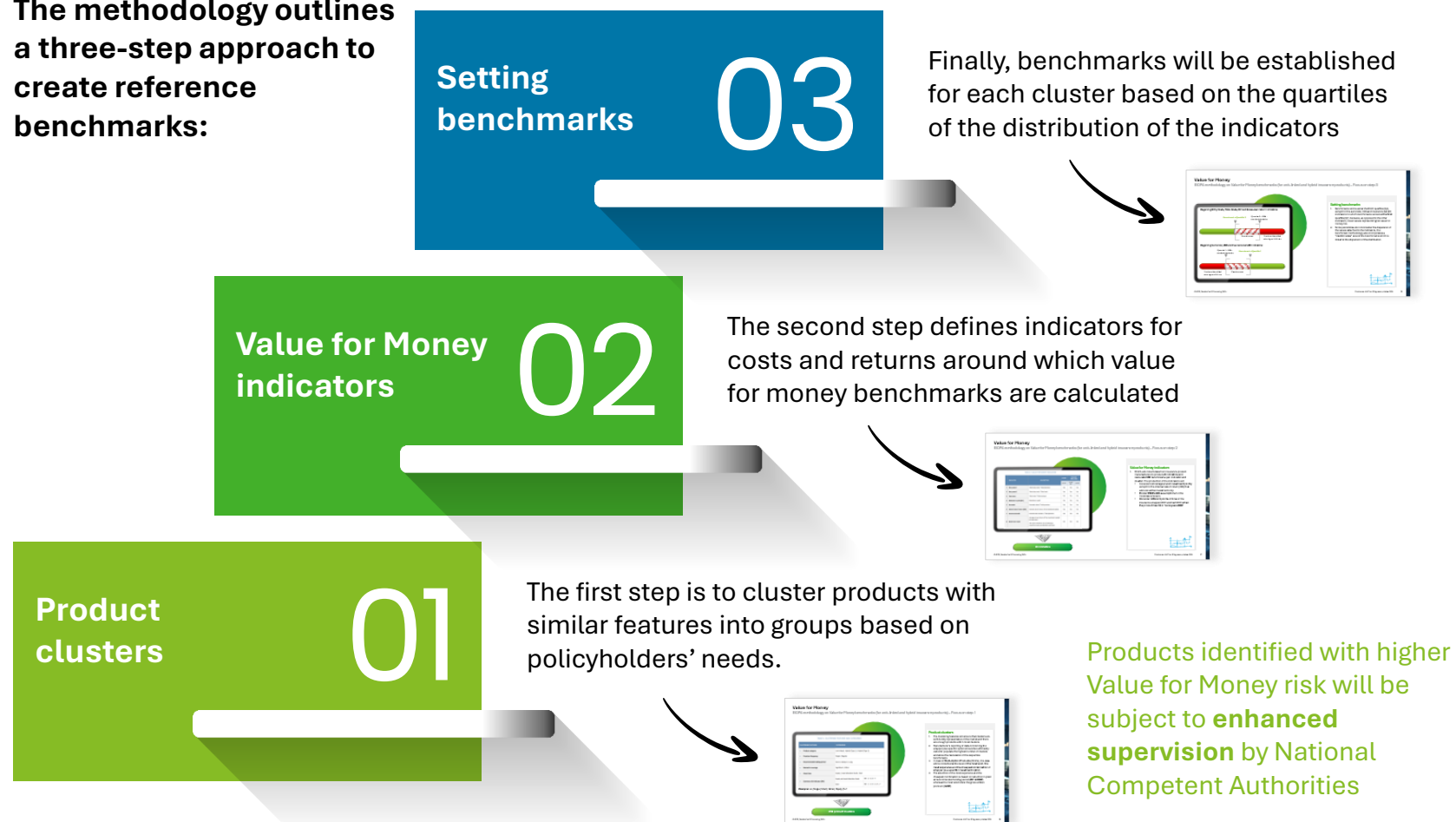
Overview of EIOPA methodology on Value for Money benchmarks (for unit-linked and hybrid insurance products)

EIOPA initially targeted 2 main objectives in developing the methodology on Value for Money benchmarks for unit-linked and hybrid insurance products:

- Assist National Competent Authorities in **identifying products with higher value for money risks** and promoting a more efficient and **risk-based approach** to conduct supervision; and
- Eventually, when data on benchmarks would be shared, assist insurance product manufacturers in identifying comparable offers to determine if their products offer value, including the assessment of costs for consumers to ensure they are due and proportional to the expenses borne by the provider and the benefits offered to policyholder.



The methodology outlines a three-step approach to create reference benchmarks:



Value for Money

EIOPA methodology on Value for Money benchmarks (for unit-linked and hybrid insurance products) – Focus on step 1

TABLE 1: CLUSTERING FEATURES AND CATEGORIES

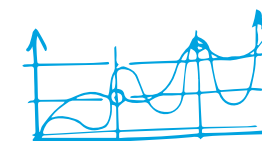
CLUSTERING FEATURES	CATEGORIES	
▶ Product category	Unit-linked Hybrid (Type 1) Hybrid (Type 2)	
▶ Premium frequency	Single Regular	
▶ Recommended holding period	Short Medium Long	
▶ Biometric coverage	Significant Other	
▶ Asset class	Equity Asset allocation funds Rest	
▶ Summary risk indicator (SRI)	Equity and asset allocation funds	SRI: 2 - 4 5 - 7
	Rest	SRI: 1 - 2 3 - 4 5 - 7

Example: UL | Single | Short | Other | Equity | 5-7

216 product clusters

Product clusters

1. The clustering features will ensure that clusters are sufficiently representative of the market and there are enough products within most clusters.
2. Manufacturer's reporting of data concerning the wrapper plus specific option should be sufficiently varied to populate the highest number of clusters and allow the calculation of the respective benchmarks.
3. In case of **Multi-Option Products (MOPs)**, the data will be collected at the level of **the most sold, the most expensive and the cheapest combination of wrapper plus specific investment option**.
4. The selection of the most expensive and the cheapest combination is based on reduction in yield at recommended holding period (**RIY at RHP**) whereas the most sold refers the gross written premium (**GWP**).



Value for Money

EIOPA methodology on Value for Money benchmarks (for unit-linked and hybrid insurance products) – Focus on step 2

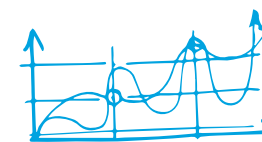
TABLE 2: VALUE FOR MONEY INDICATORS

INDICATOR	DESCRIPTION	SHORT	MEDIUM AND LONG	
		At RHP	At half RHP	At RHP
1 Entry costs 1	Total entry costs / Total premium	Yes	Yes	Yes
2 Entry costs 2	Total entry costs / Total costs	Yes	Yes	Yes
3 Total costs	Total costs / Total premium	Yes	Yes	Yes
4 Reduction in yield (RIY)	Reduction in yield	Yes	Yes	Yes
5 Surrender	Surrender value / Total premium	Yes	Yes	Yes
6 Internal rate of return (IRR)	Internal rate of return of the investment option	Yes	Yes	Yes
7 Insurance benefit	Insured event scenario / Total premium	Yes	Yes	No
8 Break-even return	Average annual return of the investment needed to break even. <i>The return should be net of underlying investment costs and biometric premium.</i>	Yes	Yes	No

8 indicators

Value for Money indicators

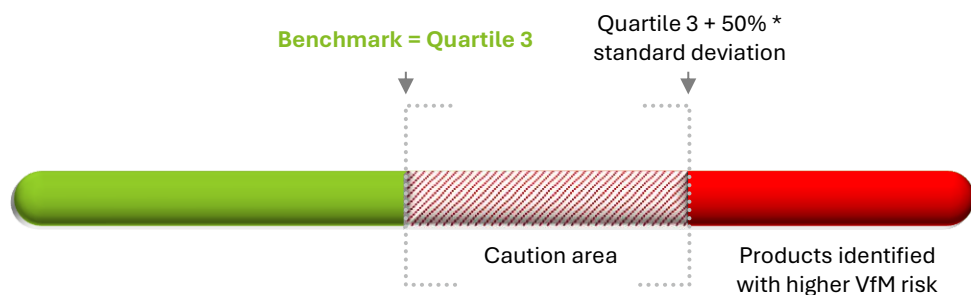
1. EIOPA will collect data from insurance product manufacturers to produce **8 indicators and calculate VfM benchmarks per indicator and cluster**. The production of the indicators will:
 - Consider both **wrapper and investment jointly** except for the internal rate of return (IRR) that will look at the investment only.
 - **Follow PRIIPs KID assumptions** for the moderate scenario.
 - **Consider different points in time** of the insurance wrapper (RHP and half RHP) **when the product has 10 or more years RHP**.



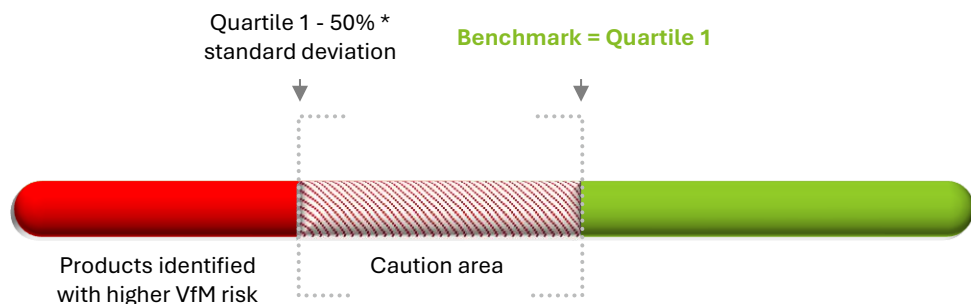
Value for Money

EIOPA methodology on Value for Money benchmarks (for unit-linked and hybrid insurance products) – Focus on step 3

Regarding Entry Costs, Total Costs, RiY and Break-even return indicators:

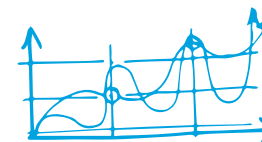


Regarding Surrender, IRR and Insurance benefit indicators:



Setting benchmarks

1. Benchmarks will be set at the **third quartile (Q3)**, except for the surrender, IRR and insurance benefit indicators for which benchmarks will set at **the first quartile (Q1)** because, as opposed to the other indicators, lower values represent higher value for money risk.
2. Since percentiles do not consider the dispersion of the values attached to the indicators, the benchmark methodology also incorporates a **“caution area”** around the benchmarks which is linked to the dispersion of the distribution.



Contacts



Alexandre Schneider

Director

Advisory & Consulting

Tel. +352 45145 3658

Email: alschneider@deloitte.lu



Michael Cravatte

Partner

Advisory & Consulting

Tel. +352 45145 4758

Email: mcravatte@deloitte.lu



06

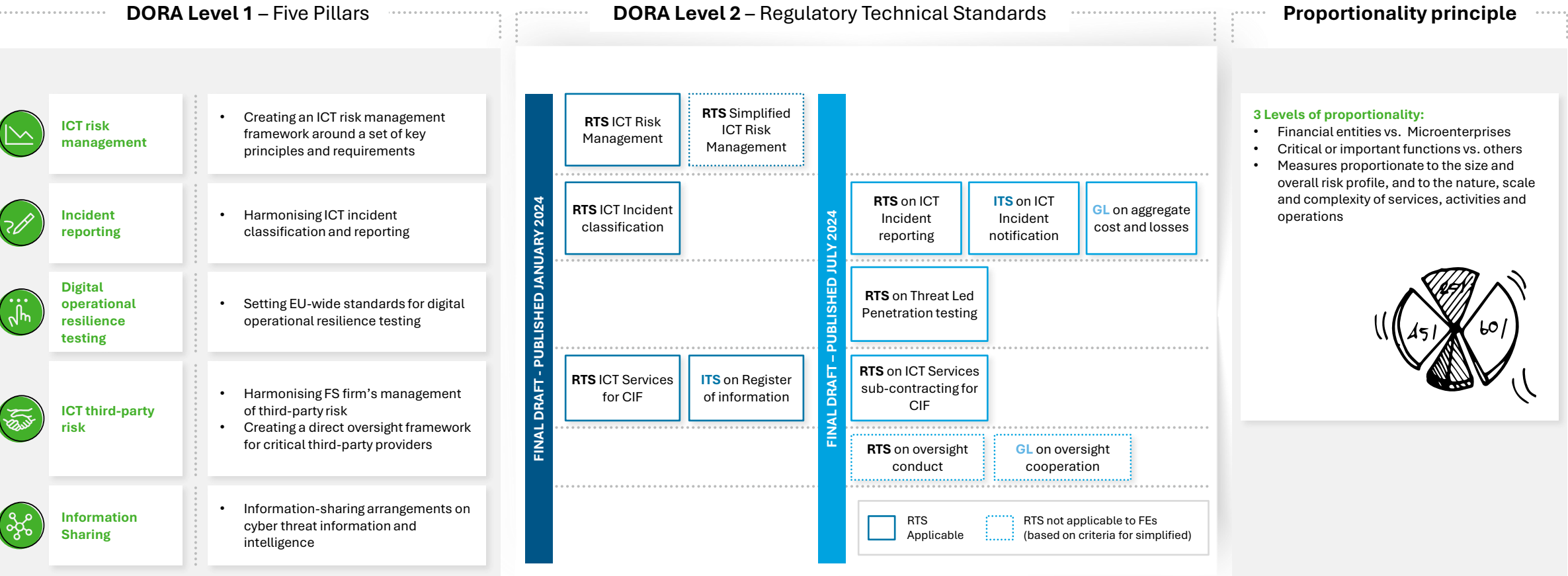
DORA

DORA Overview

DORA is composed of 2 level of requirements and addresses 5 Pillars.

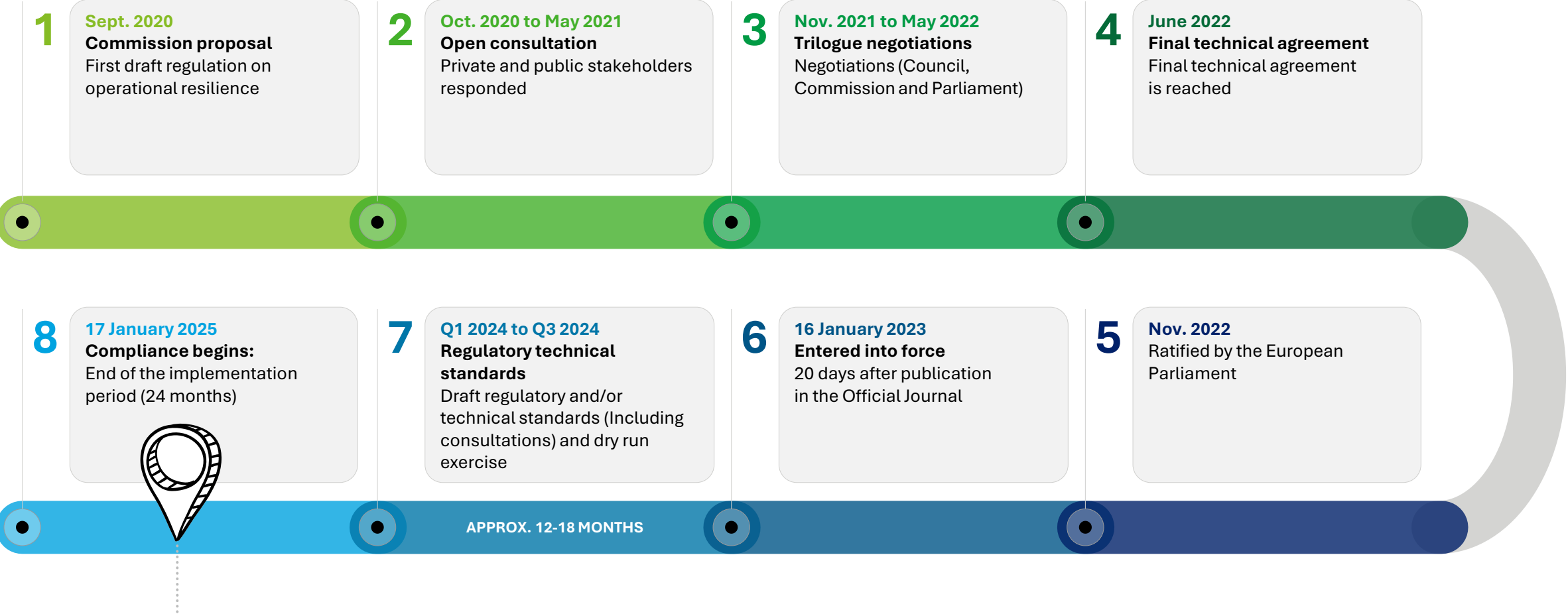


DORA is composed of (LEVEL 1) the REGULATION (EU) 2022/2554 and (Level 2) Regulatory Technical Standards, Information Technical Standards as well as additional Guidelines.



DORA Timeline

Entities from the Insurance Sector are expected to be ready by 17th of January 2025 as the other Financial entities

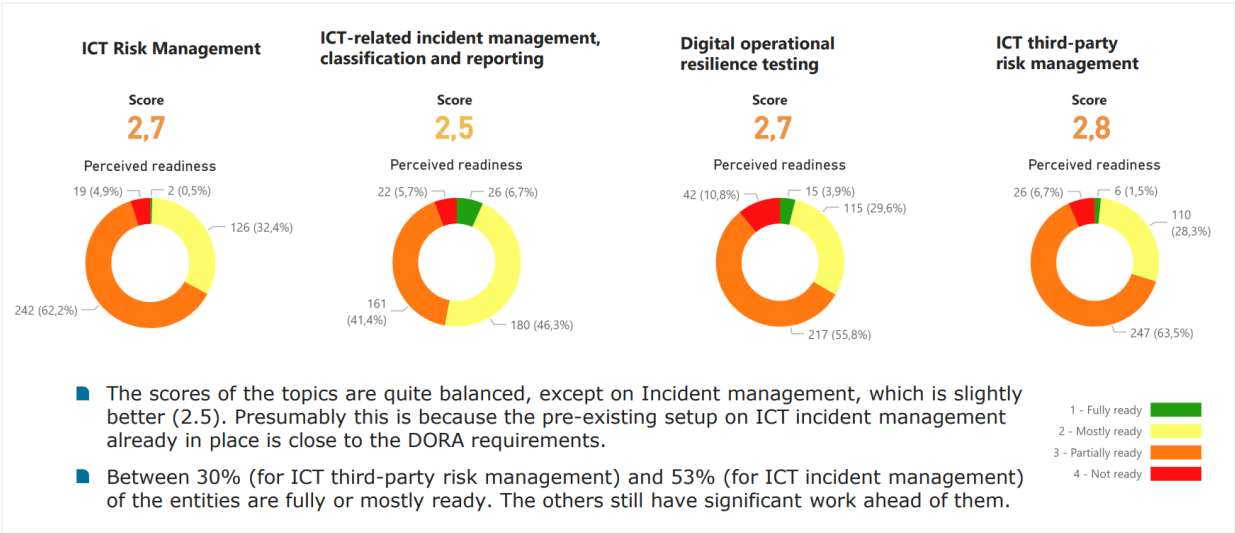


We are here

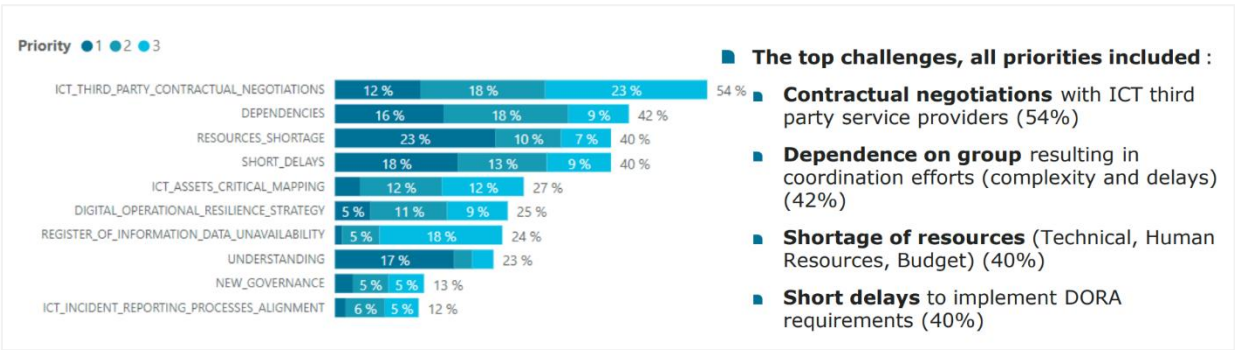
DORA Updates

CSSF DORA Readiness Survey October 2024 - Summary

Readiness Survey result



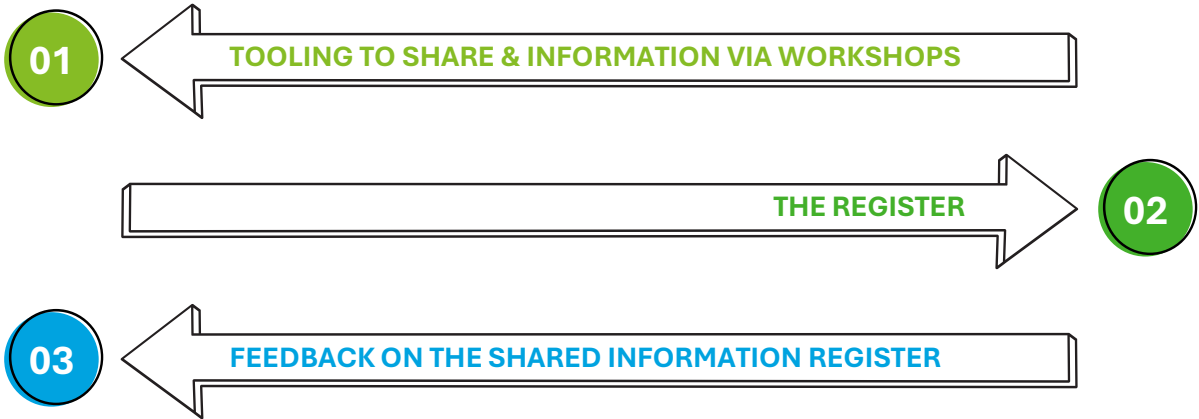
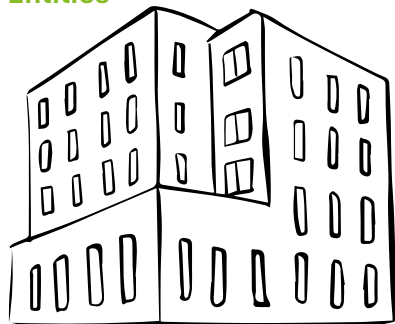
Main Challenges



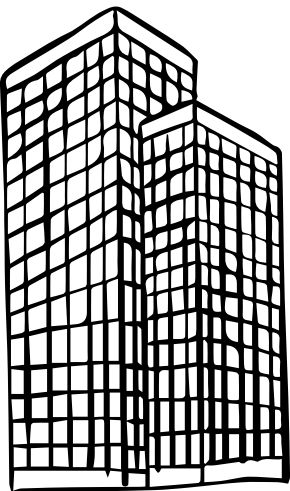
DORA Updates

Information Register Dry – Run Exercise

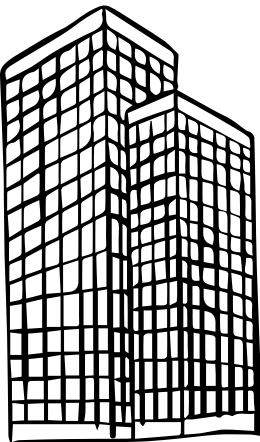
Participating
Financial
Entities



Competent
Authorities



European
Supervisory
Authorities - EIOPA,
EBA, ESMA



CSSF Feedback provided early November 2024 to participants:

- Data quality check
- Brief information
- Communicated a potential report with overall comments from received registers

The ESAs will conduct a workshop on DORA Dry Run lessons learnt and data quality on the 18 of December

DORA Updates

Key takeaways from CSSF Communication

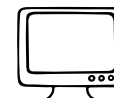
LEI Code Requirement

- Required by 17 Jan 2025 for certain reporting.
- Entities should procure and activate an LEI code now.



ICT Incident Reporting

- Mandatory reporting of major ICT incidents via eDesk starting 17 Jan 2025.
- Create “IT Incident Notifier” role in eDesk.



Contractual ICT Services Notifications

- No need to re-submit previously notified ICT outsourcing (CSSF 22/806).
- Non-critical existing contracts before 17 Jan 2025 just need to be listed in the Register of Information.



Upcoming Guidance

- Details on new notifications for DORA and register submissions will be provided soon.



Contacts



Vythee Evanee

Senior Consultant

Advisory & Consulting

Tel. +352 45145 4195

Email: evythee@deloitte.lu



07

AI ACT



Introduction

Artificial Intelligence Act – background

What are the objectives of the AI Act and how Europe plans to get there?

1. Strengthen Europe's Position

The AI Act aims to strengthen Europe's position as a global hub of excellence in AI from the lab to the market, ensure that AI in Europe respects our values and rules, and harness the potential of AI for industrial use



2. Foster innovation

Strengthen uptake, investment and innovation in AI across Europe through the regulatory framework and coordinated plan



3. Protect the Public

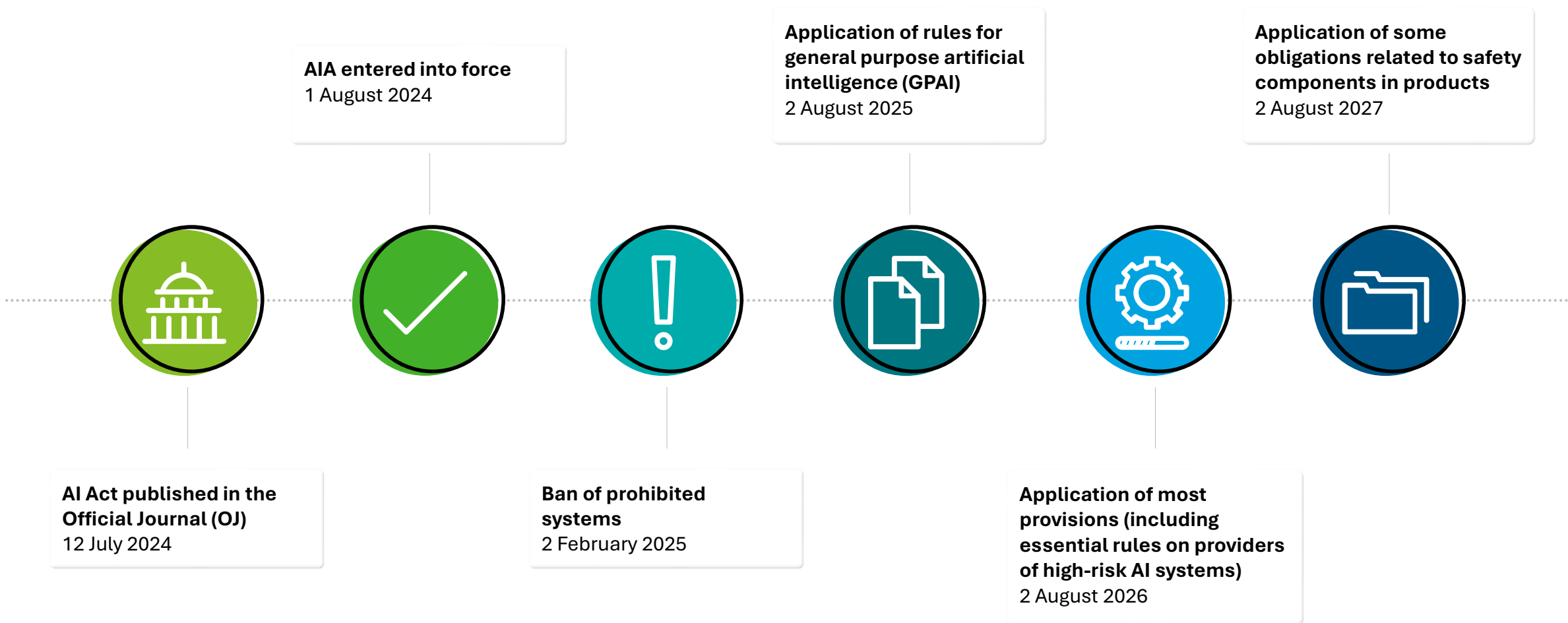
Guarantee the safety and fundamental rights of people and businesses by ensuring human—centric and ethical AI in Europe



- AI Act is the **first piece of legislation** of this kind worldwide, which means that the **EU can lead the way** in making AI human-centric, **trustworthy** and **safe**.
- As such, **AI Act** aims to **support innovation** in Europe and to give start-ups, SMEs and industry space to **grow and innovate**, while protecting **fundamental rights, strengthening democratic oversight** and **ensuring a mature system of AI governance** and enforcement.
- AI Act sets out **harmonized rules for the development**, placing on the market and use of AI systems in the EU.

Artificial Intelligence Act – background

Progressive applicability of the AI Act



AI Act will apply to **existing high-risk AI systems** (put in service before the implementation of the AI Act) only if a significant change is subsequently made to their design or intended purpose.

Artificial Intelligence Act – background

Scope of Application of the AI Act

1. Systems in scope

An AI system is a machine-based system:

- designed to operate with varying levels of **autonomy** and.
- that may exhibit **adaptiveness** after deployment and that,
- **infers**, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments.



2. Actors in scope

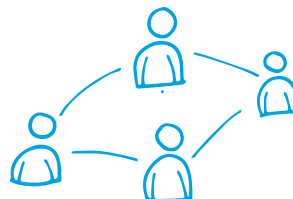
AI Act applies to various stakeholders across the AI value chain. Two main actors that are heavily regulated by the AI Act are providers and deployers of AI systems.

Provider' is any natural or legal person

- that develops an AI system or
- that has an AI system developed and
- places them on the market or puts the system into service
- under its own name or trademark

Deployer means any natural or legal person,

- using an AI system under its authority
- except where the AI system is used in the course of a personal non-professional activity



3. Geographical scope

AI Act has **extraterritorial scope** - will apply to providers and deployers of AI systems from third countries as long as the output produced by the system is used in the EU.



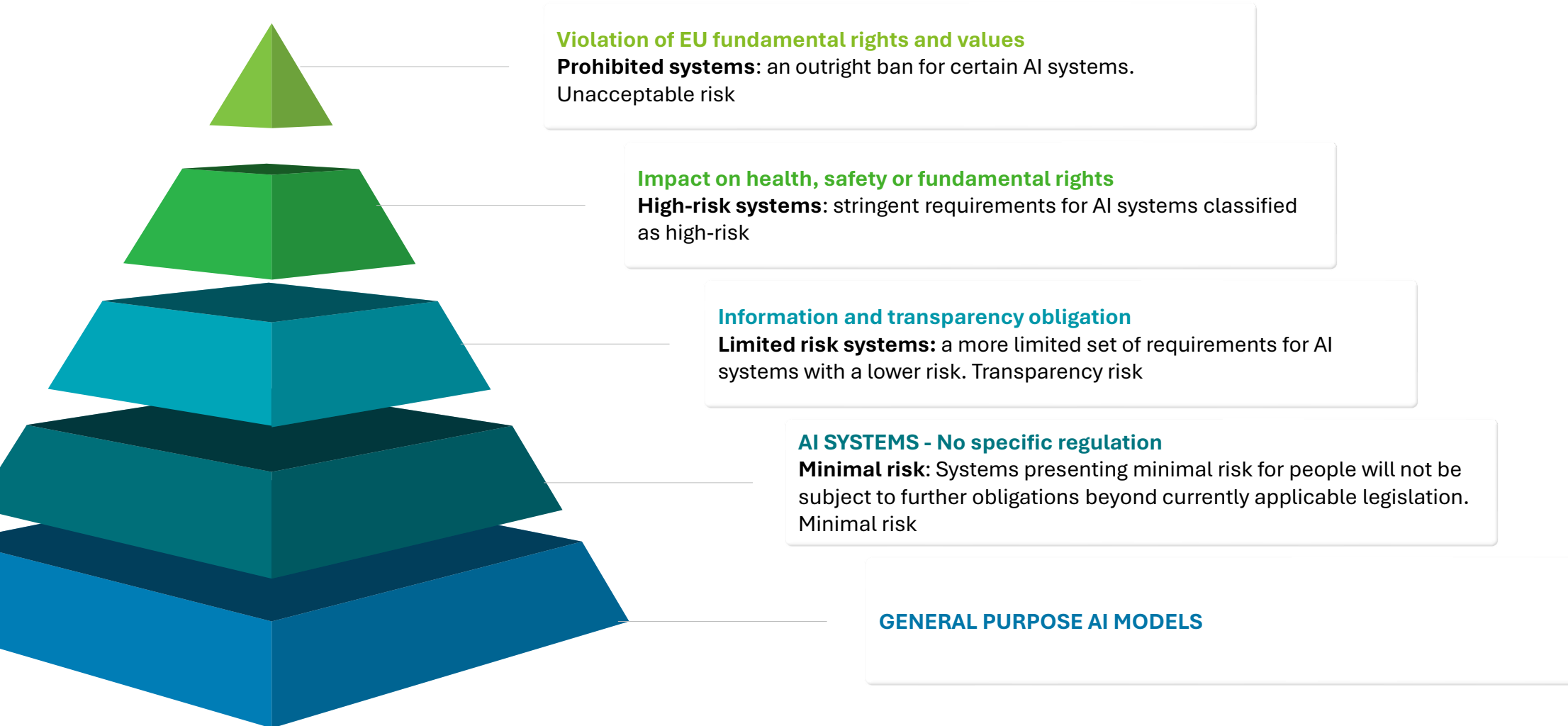
4. What is not in scope

- Free and open-source AI systems (unless these are prohibited or high-risk artificial intelligence system (HRAIS));
- AI systems used by military, defense or national security, scientific research, natural persons using AI for a purely personal non-professional activity etc.



Artificial Intelligence Act – background

AI Act is a risk-based regulation that classifies AI systems into several risk categories





Prohibited AI systems

Prohibited AI practices

AI Act provides a closed list of AI systems that will be banned due to an unacceptable risk to health, safety and fundamental rights of people



used for the purpose of remote biometric identification



biometric categorisation systems that categorise persons based on their biometric data to deduce or infer their race, political opinions, trade union membership, religious or philosophical beliefs, sex life or sexual orientation;



use manipulative or deceptive techniques that may cause the person to take a decision that person would not have otherwise taken in a manner that causes or is likely to cause significant harm;



used for scraping of facial images from the internet or CCTV footage to create facial recognition databases



exploit vulnerabilities of persons due to their age, disability or a specific social or economic situation, in a manner that causes or is likely to cause significant harm;



used to infer emotions of persons in the areas of workplace.



High-risk AI systems

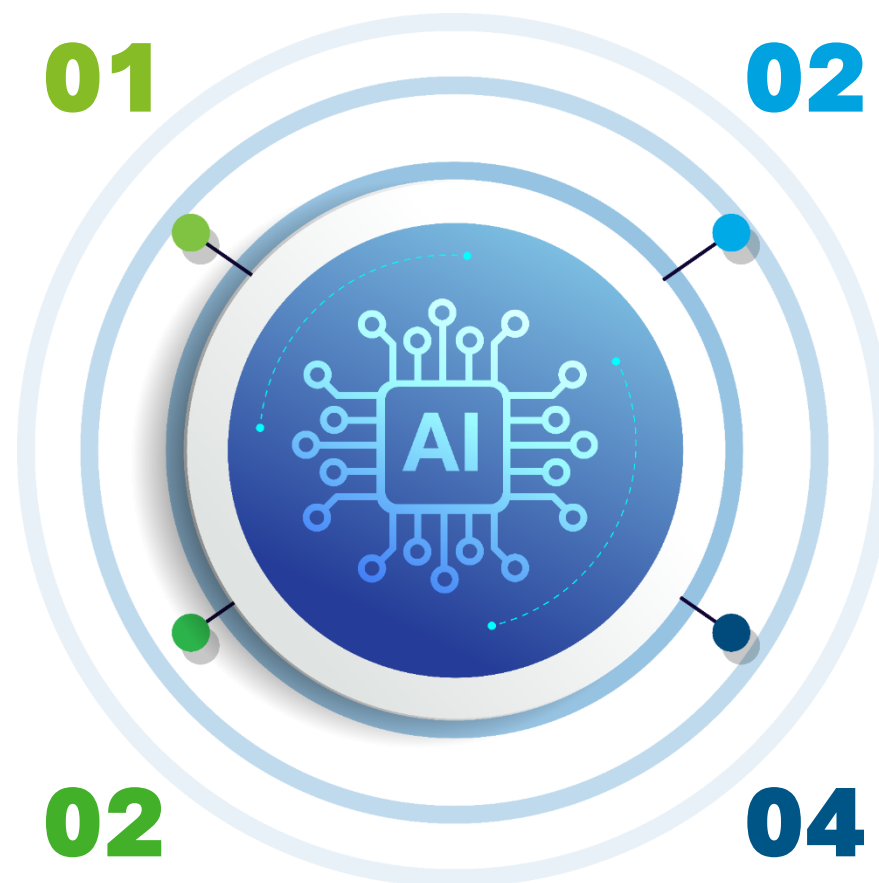
High-risk AI systems

What is considered as a HRAI system?

AI systems that can pose a **significant risk of harm to the health, safety or fundamental rights**.

All the systems listed in the Annex III of the AI Act will be considered as HRAI systems. Some examples include AI systems intended to be used in any of the following areas:

- emotion recognition;
- the recruitment or selection of natural persons, to analyse and filter job applications;
- decisions affecting terms of work-related relationships, the promotion or termination of work-related contractual relationships,



When assessing the risks, both the **severity** of the possible harm and its **probability** of occurrence should be taken into account.

No later than 2 February 2026, the Commission will develop **guidelines** containing a comprehensive list of practical examples of high-risk and non-high risk use cases for AI systems.

High-risk AI systems

Obligations of HRAI providers

REQUIREMENTS FOR HRAI

Data & Data Governance

High-Quality Data Sets & Data Governance:

1. Data Capture
2. Data processing: tagging, cleansing, encryption, aggregation
3. Data Assumptions
4. Pre-assess availability and quantity
5. Examine bias

Data must be relevant, representative, error-free and complete.

European "Open Data" Policy should boost access to increased volumes of high-quality data for, among others, development of the AI.

Risk Management System

- **Continuous** and iterative process

Record-keeping

- Sufficient logs should be kept.
- Appropriate **technical documentation** must be maintained to be able to verify compliance with the AI Act.
- **Explainability** requirement can only be proved by appropriate documentation and logs.

Technical documentation

- Documentation to understand how the system **is developed** and how it **performs**

Transparency and provision of information to users

- Users should be able to **understand and control** the high-risk AI systems.
- Includes **concise, clear, non-technical**, accessible and understandable information for the user.
- High-risk AI systems have to be accompanied by **instructions of use**.

Robustness, Accuracy and Cybersecurity

Human oversight

- Limit on delegation to systems.
- Can decide not to use the high-risk AIS or its outputs.
- Possibility that the **human** can
 1. safely and instantly **interrupt** the operation and
 2. discard, correct or revert the output.

High-risk AI systems

Obligations of HRAI deployers



OBLIGATIONS

- Given the **nature of AI systems** and **the risks to safety** and **fundamental rights** possibly associated with their use, AI Act prescribes specific **responsibilities for deployers**.
- Deployers of high-risk AI systems are required to use such systems in accordance with **instructions of use** and **assign human oversight** to natural persons who have the necessary **competence, training** and **authority**. Additional obligations:

01

In certain cases, perform
**fundamental rights
impact assessment**

02

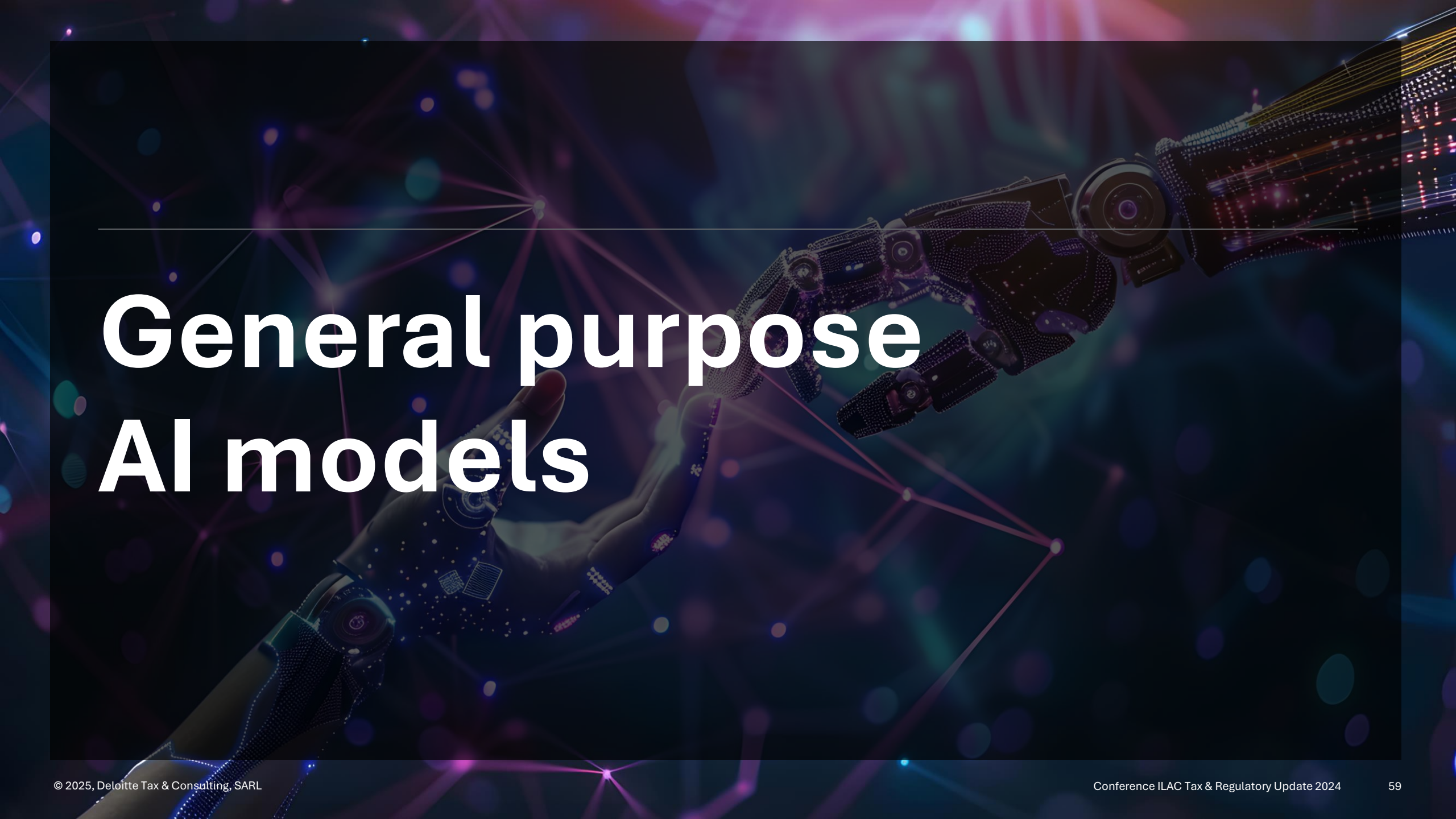
Monitor operation and **act**
upon detection of
malfunctions.

03

Generate and **keep**
automatically generated
logs (“Record-Keeping”)

04

If the system continues to learn,
the deployer is responsible for
the **quality of the data.**



General purpose AI models

General Purpose AI Models

Dedicated regime for GPAI models

Update from EP

Transparency requirements:

Technical documentation

Providers of GPAI models have to ensure all the relevant technical information about their model is passed down to downstream providers.

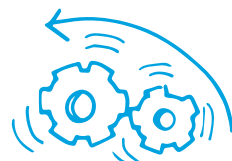
Copyright policy

Any provider placing a GPAI model on the EU market, needs to put in place a policy in which they will explain how they intend to respect Union copyright laws.

In fact, AI Act requires that they obtain an authorization from right-holders if they want to carry out text and data mining over their works that are protected by copyright.

Content used for training of the model

In order to increase transparency on the data that is used in the pre-training and training of GPAI models, providers have to draw up and make publicly available a detailed summary of the content used for training their models.

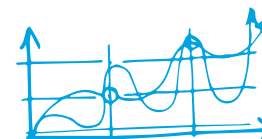


Exemption from transparency requirements:

GPAI models that are released under a free and open-source license are exempt from certain transparency requirements, unless they present a systemic risk.

A GPAI model shall be classified as GPAI model with systemic risk if it meets any of the following criteria:

1. it has high impact capabilities evaluated on the basis of appropriate technical tools and methodologies;
2. based on a decision of the Commission that a model has such high impact.



Additional requirements for GPAI models with systemic risk

Providers of GPAI models that meet this FLOP threshold have to notify the AI Office without delay and in any event within 2 weeks after those thresholds are met.





Governance under the Ai Act

Governance under the AI Act

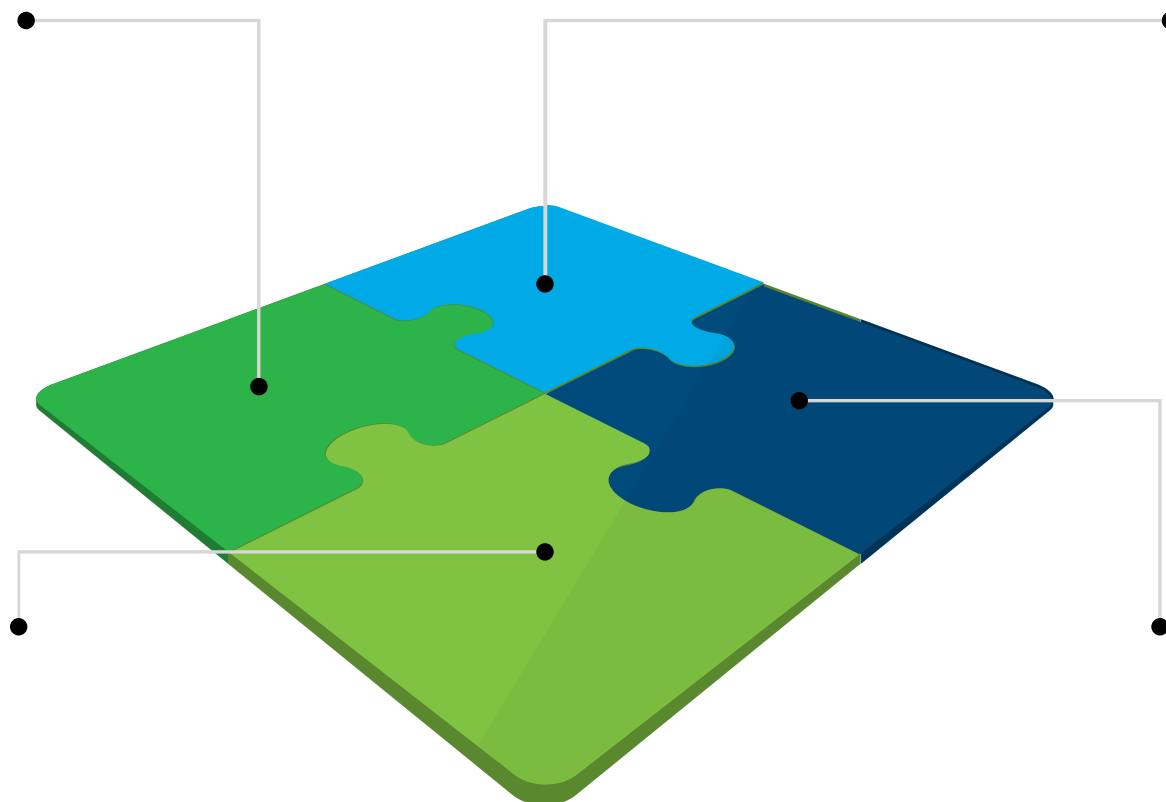
The implementation of the act is the responsibility of a number of national and EU-level actors

1. European Artificial Intelligence Office

- European Artificial Intelligence Office (EAIO) is established within the Commission and will play a key role when it comes to enforcement of the AI Act by supporting national competent authorities (NCAs) in their tasks.
- The AI Office will have an exclusive power to supervise the GPAI models,
- The AI Office will oversee developing the methodologies and benchmarks for evaluating the capabilities of GPAI models.
- The AI Office to attend meetings of the EAIB without taking part in the votes.

2. EU database

- EU database for HRAI systems, their providers and users will be established by the Commission (Article 60).




3. European Artificial Intelligence Board

- European Artificial Intelligence Board (EAIB) will be established to ensure a consistent application of the AIA throughout the EU and advising on secondary legislation, Codes of Conduct, and technical standards.
- EAIB will be composed of representatives of the Member States.
- Certain observers would participate in the EAIB such as the European Data Protection Supervisor (EDPS) and the European Union Agency for Cybersecurity (ENISA).

4. Regulatory sandboxes

- Member States will establish at least one AI regulatory sandbox.
- The objective is to offer providers of AI systems the possibility to develop, train and test in real world conditions, an innovative AI system,
 1. pursuant to a specific plan
 2. for a limited time and
 3. under regulatory supervision



Penalties under the Ai Act

Penalties under the AI Act

Penalties for those in breach of the AI Act requirements



Exercising prohibited AI practices

Offender will be subject to **administrative fines** up to **35M EUR** or up to **7% of company's** total worldwide **annual turnover** for the preceding financial year, whichever is higher



Breach of imposed obligations under AI Act for providers, importers, distributors, users of high-risk AI systems

Offender will be subject to administrative fines up to **15M EUR** or up to **3% of companies** total worldwide annual turnover



Incorrect, incomplete or misleading information provided to NCAs

Offender will be subject to a fine up to **7.5M EUR** or up to **1% of companies total worldwide** annual turnover

Contacts



Georges Wantz

Managing director

Advisory & Consulting

Tel. +352 45145 4363

Email: gwantz@deloitte.lu

08

FIDA

Agenda

01

Introduction
to FIDA

02

Timeline

03

Impact

04

Conclusion

Introduction to FIDA

FIDA is an upcoming regulation that will transform the insurance industry towards open insurance

Objectives

FIDA (Financial Data Access) is an upcoming regulation introducing **requirements to share customer data to third parties**. Main objectives:



Empower customers to **control and share their data**



Increase **innovation and competition** in the financial sector



Accelerate adoption of **data-driven solutions**



Entities in scope
Most financial actors will be impacted



Insurance undertakings
Insurance intermediaries
Ancillary insurance intermediaries



Investment managers



Banks and others



Entities out of scope
Most financial actors will be impacted



Microenterprises or SMEs
Occupational retirement provision institutions with less than 15 members



Data in scope
Insurance firms will have to share a **broad scope of data** with third parties



Non-life insurance products
Insurance-based **investment**
Personal **pension products**
Suitability assessment input data



Other



Data out of scope

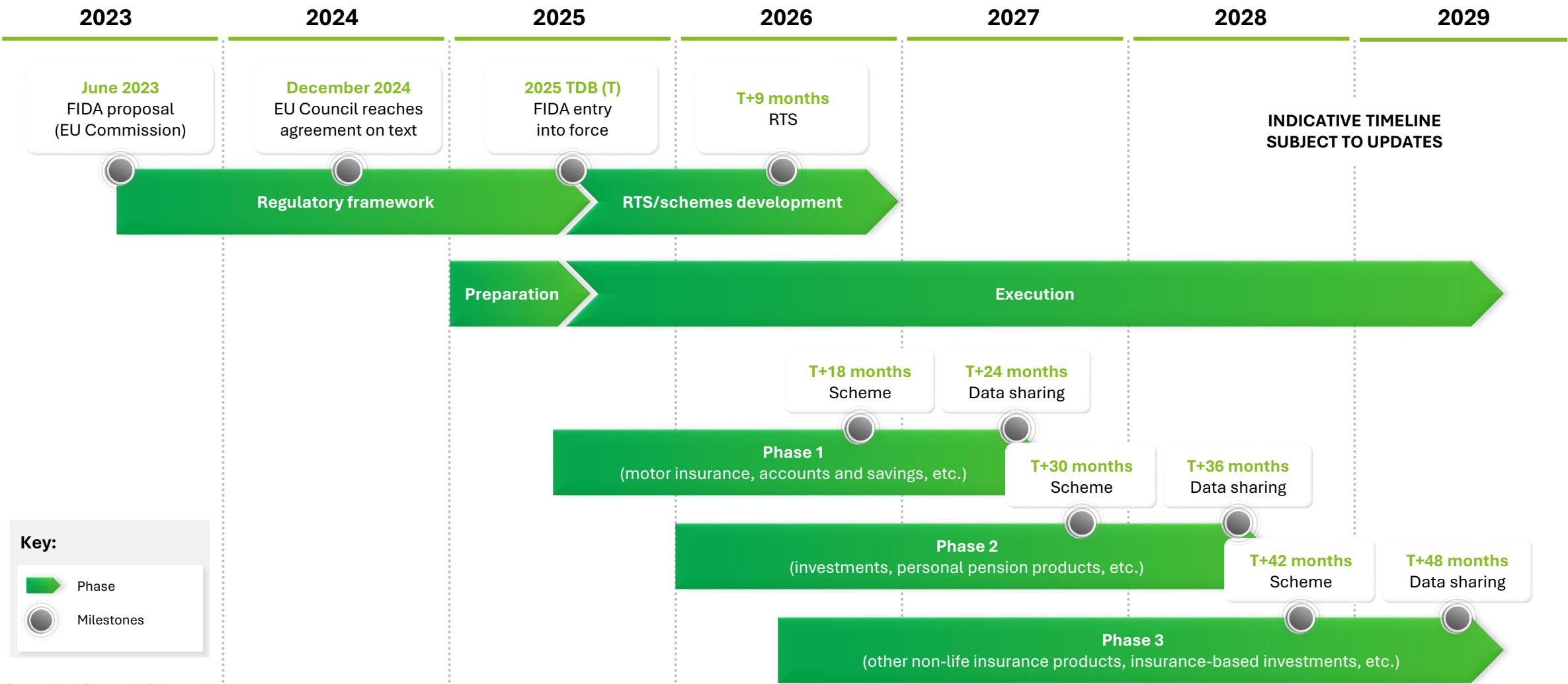


Life, sickness and health insurance
Data on personal injuries contained in non-life insurance
Customer data with potential exclusion risk
Data internally enriched by the data holder

Source: Deloitte analysis December 2024

FIDA timeline

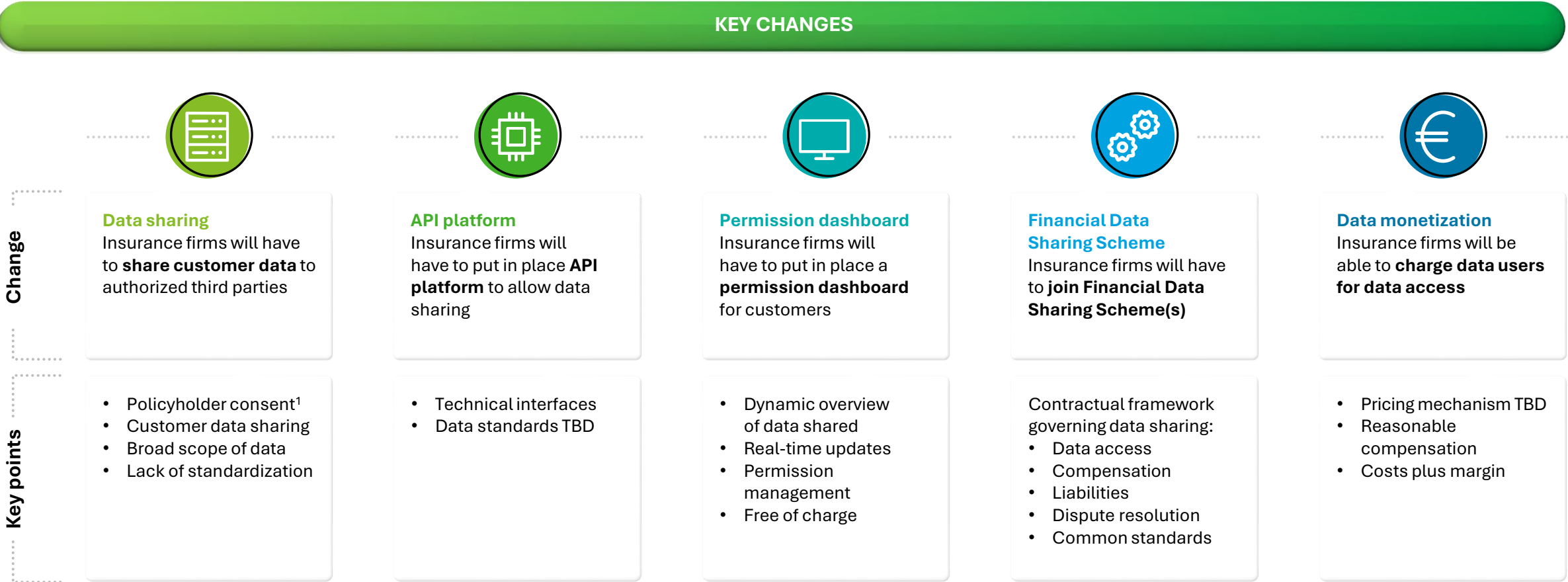
FIDA timeline is challenging with expected entry into force in 2025 and a phased approach for implementation



Source: Deloitte analysis December 2024

Key changes

FIDA introduces major requirements on data sharing, APIs, permission dashboards and financial data sharing scheme

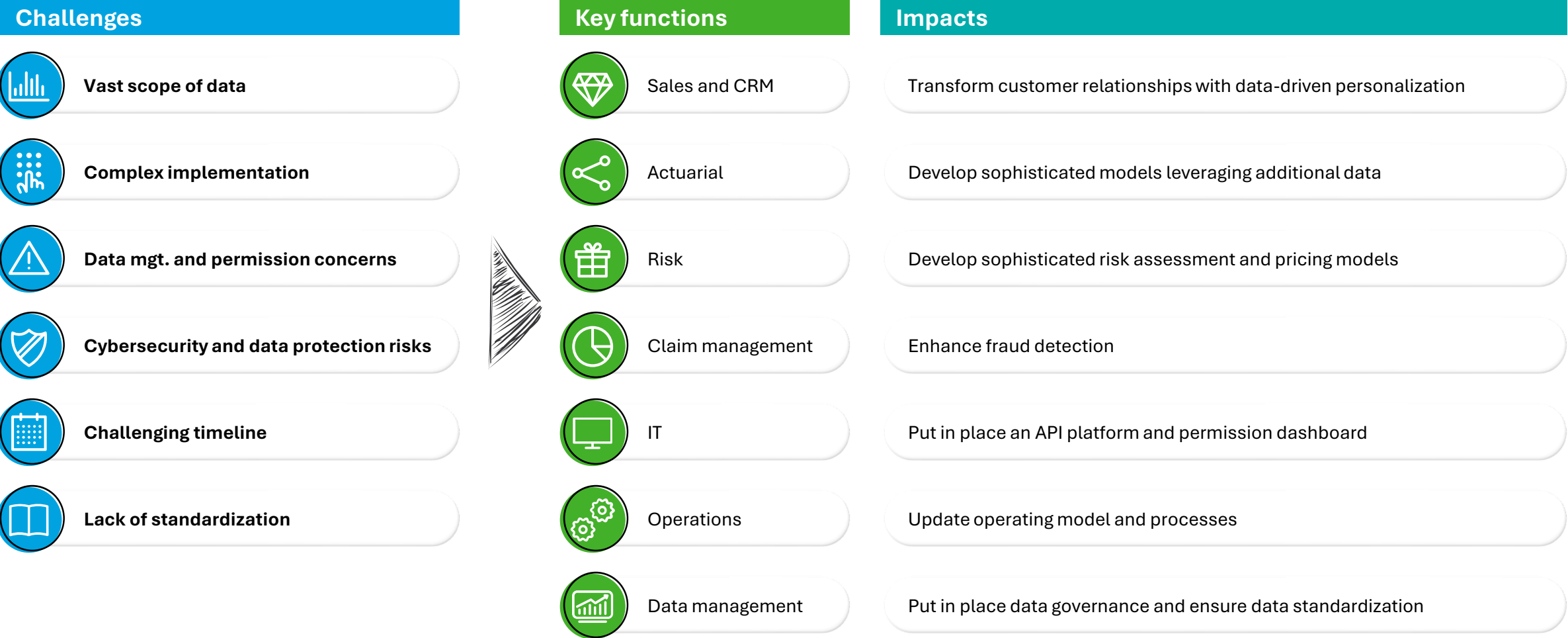


Source: Deloitte analysis December 2024

1. In the context of insurance, customer is the insured person or policyholder, excluding third-parties

Impacts

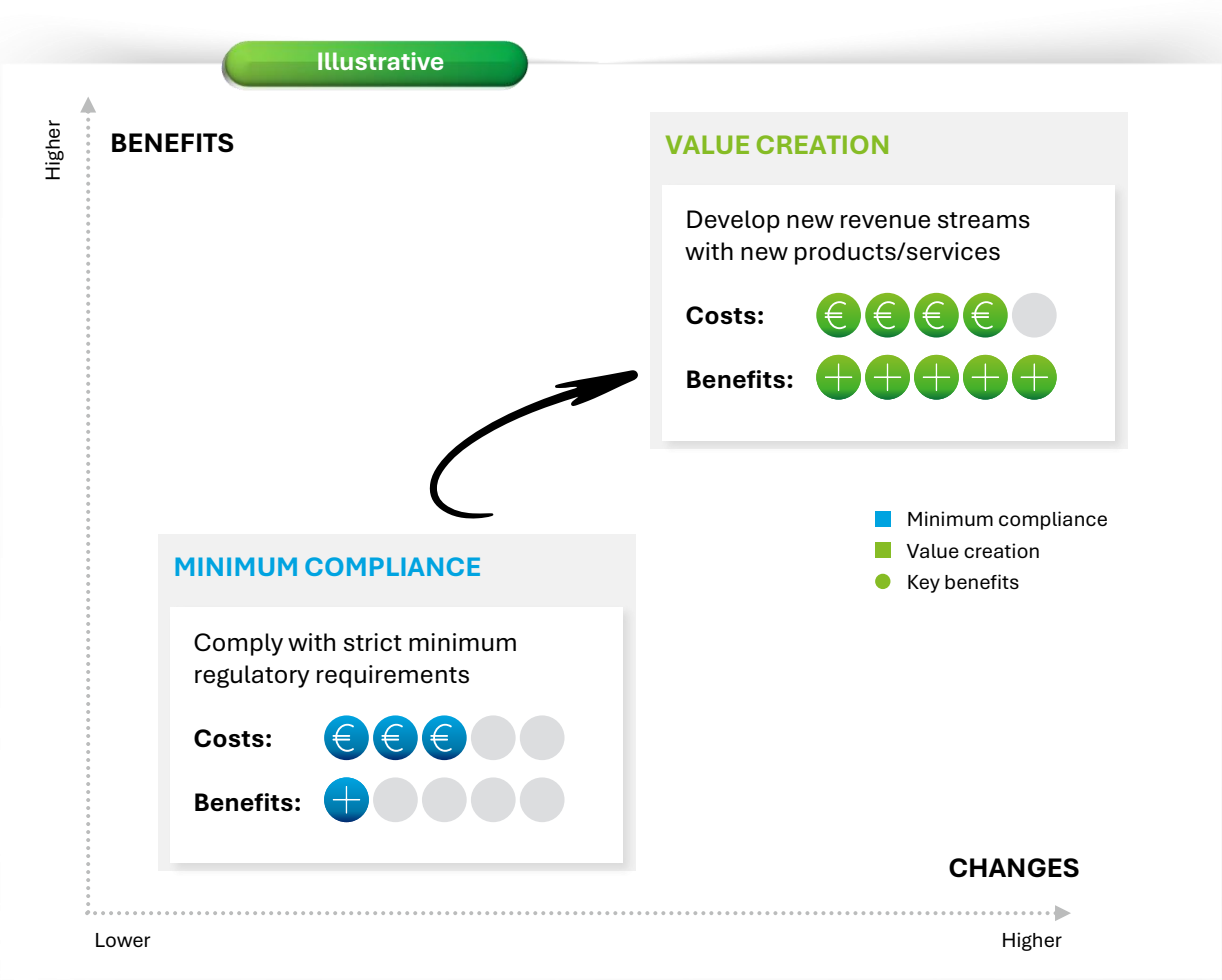
FIDA will profoundly impact all functions of insurers with key changes on clients, processes, technology and data



Source: Deloitte analysis December 2024

Value creation

Insurers can go beyond minimum regulatory compliance and use FIDA as an opportunity to develop new revenue streams



Source: Deloitte analysis December 2024


Key points

- New revenue streams
- Data monetization
- Cross-sell/up-sell
- Enhanced customer experience
- Improved risk and fraud detection


Conclusion and next steps AI Act

Insurance companies can assess FIDA impacts for business, regulatory/compliance, IT and data management

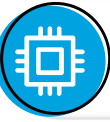
Topics



Business



Regulatory and compliance



IT and data management



Operations



Risk management



Next steps for insurance companies (not exhaustive)

Define value proposition, explore business opportunities and new revenue streams

Review regulatory requirements and assess gaps

Assess IT impacts and review data management/governance

Define target operating model and assess impacts on insurance companies' operations

Assess data security, cyber-risk, data management risks and explore enhanced risks models

Contacts



Alexandre Havard

Partner

Advisory & Consulting

Tel. +352 45145 3148

Email: ahavard@deloitte.lu



Maxime Gaborieau

Senior Manager

Advisory & Consulting

Tel. +352 62138 3508

Email: mgaborieau@deloitte.lu

09

Pillar II

Luxembourg Pillar Two Law

Updates

What?

The OECD Pillar 2 is a global minimum tax that ensures multi-national enterprises with global revenues above EUR 750 million pay a minimum 15% effective tax rate in each jurisdiction in which they operate.



Where are we?

- Draft legislation amending Pillar Two law (June 12, 2024)
- State council (October 8, 2024)
- Vote by the end of the year?



Draft law issued at the same time as the fourth tranche of AG released by the OECD on June 17, 2024

Amendments to the draft law made by the government on October 31, 2024

- Allocation of profits and taxes in structures including flow through entities;
- Securitization vehicles;
- Potential future Grand-Ducal decree on:
- DTL recapture;
- Divergence between GloBE and accounting carrying value;
- Allocation of cross-border current taxes;
- Allocation of cross-border deferred taxes;



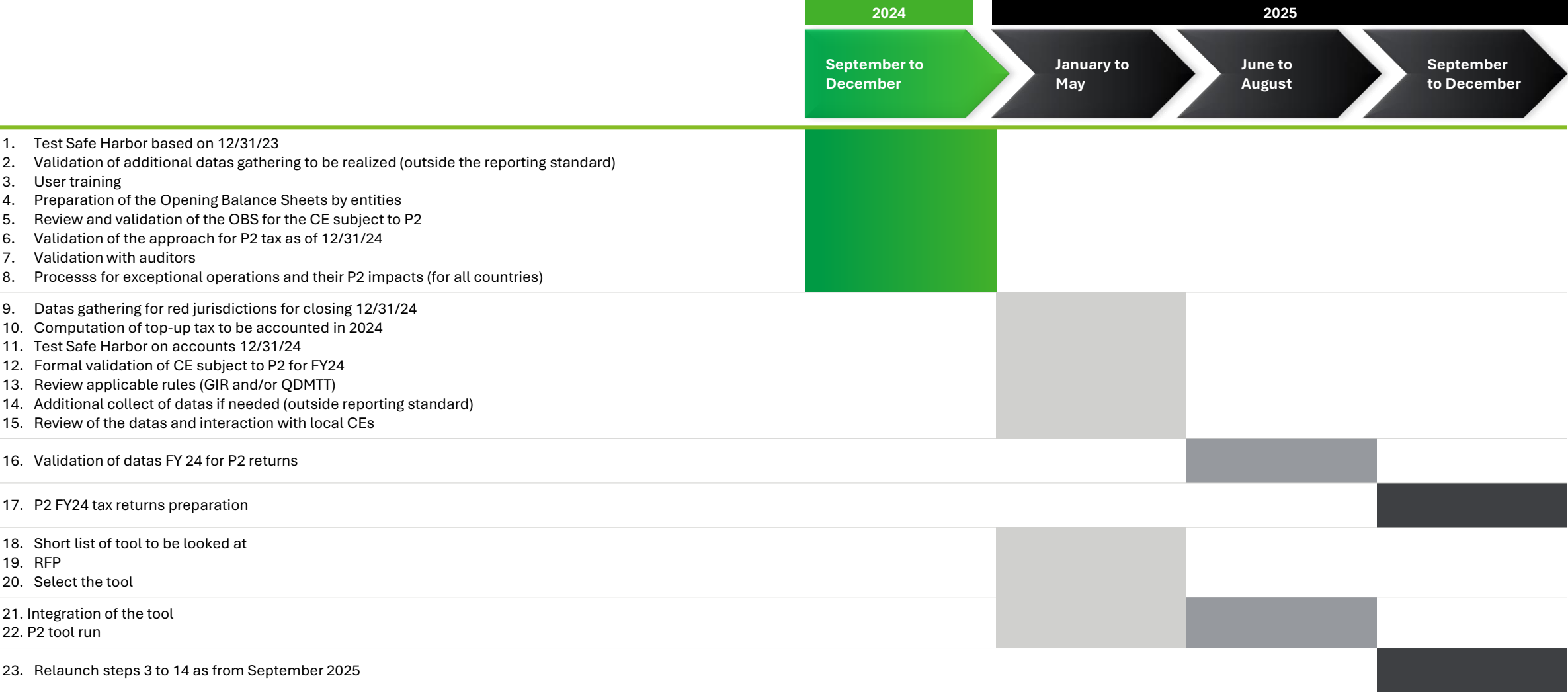
Key elements related to the insurance sector

- Investment entities/Insurance investment entities should be out of the scope of the Luxembourg QDMTT (Qualified Domestic Minimum Top-up Tax) excluded in Luxembourg.
- Clarification that certain expenses of insurance companies are not considered for purposes of the Pillar Two law:
 1. Technical provisions (disregarding management fees) related to excluded dividend or excluded equity gain or loss, which arise from investments made by an insurance company on behalf of its clients.
 2. Equalization provisions accounted for by a reinsurance company would benefit from the exception to the five-year recapture mechanism for deferred tax liabilities.
- Insurance investment entity election to be treated as a transparent entity: shareholder would continue to be considered as meeting the condition of minimum taxation if it is a regulated insurance company fully held by the policyholders.



Luxembourg Pillar Two Law

Example of timeline



Contacts



Thierry Bovier

Partner

TAX

Tel. +352 45145 4079

Email: tbovier@deloitte.lu



Gregory Jullien

Director

TAX

Tel. +352 45145 2924

Email: gjullien@deloitte.lu

10

EU Tax Policy

Tax policy agenda

State of play



Draghi report

EU should use taxation as a carrot rather than a stick:

- **Lowering energy taxation:** propose a common maximum level of taxes, surcharges, levies and network across the EU.
- **Development of tax incentives** in selected strategic segments.
- **Decluttering:** reduce administrative burden.



Hoekstra - mission letter

- Lead the work to **level the energy taxation playing field** and the strategic use of taxation measures to incentivise the uptake of clean technologies. Help conclude negotiations on **the revision on the Energy Directive** and explore how to further green the VAT system.
- Identify innovative solutions for a **coherent tax framework for the EU's financial sector** that helps further integrate the EU's financial sector, facilitate cross-border operations and foster digitalization and innovation.
- Continue the **reform of corporate taxation** including by concluding the negotiations of the corporate tax package.
- Ensure the highest level of ambition in **fighting tax fraud tax evasion and tax avoidance** and lead the way in **better collecting and sharing tax information** notably through the use of digital tools and AI.
- Implementation of **Pillar 2** through the EU.

Tax policy agenda

State of play



Hoekstra, Q&A

- **Proposals already released.**
- **Decluttering:** ongoing reviews ATAD and DACs part of a wider agenda to declutter the EU direct tax acquis and bring greater simplification (overlaps, gaps, clearer wording, strengthened provisions...).
- **Financial sector:** unharmonized taxes: insurance premium tax, financial institutions levies, and financial transactions taxes, VAT exemption, sectoral taxes... may hinder cross-border operations and hamper digitalization, competitiveness, and innovation. **Proposals may imply changes to taxes that currently regulated at national level.**
- **Environmental:** more ambition, scope for better leveraging of tax policy tools. Too early to commit to specific policy instruments.



Other proposed Commissioners

- **McGrath (democracy, justice, and the rule of law):** will prepare a proposal for an **EU-wide-company legal status**, a 28th regulatory regime to help innovative companies grow. Measures attached going beyond the company legal form, **could cover**, access to markets, to finance, to skills, to insurance coverage, rules on contracts, **taxation**, insolvency, in order to address all the most essential aspects of corporate activity for such companies.
- **Dombrovskis (economy and productivity, implementation and simplification):** supports global discussions on wealth taxation. He would initiate a study to examine wealth-related taxes.
- **Dan Jørgensen (energy and housing):** ensure that taxes do not have a negative effect on energy prices and on the competitiveness of EU industry, while supporting clean transition objectives.

Calendar of releases

Before 2023

2023

2024/2025?

Revision of the Emission Trading Scheme (ETS)



Carbon Border Adjustment Mechanism (CBAM)



Public Country-by-Country Report



Global Minimum Taxation (Pillar 2)



DAC 8



VAT in the Digital Age (ViDA)



Unshell



Energy Directive



Guidance document on the CBAM implementation for importers of goods into the EU

New EU common system for the avoidance of double taxation and prevention of tax abuse in the area of withholding taxes (FASTER)



Business in Europe: Framework for Income Taxation (BEFIT)



Transfer Pricing



Establishing a Head Office Tax System for SMEs (HOT)



DAC 9 – exchange on information for Minimum Tax



Securing the activity framework of enablers (SAFE)



Status



Released and Voted



Released – Under review/Negotiation



Released – Examination suspended

Classification of the measures



Allocation of tax/tax burden



Environment friendly



Fight against abuse

Tax policy agenda

State of play



Directives announced

- Legislative proposal(s) on decluttering
- DAC10 – update of DAC after public consultation
- SAFE - “regulation of tax advisers”: hold off until vote on Unshell
- Directive on Remote Work – no anticipated date
- Behavioral tax: fat, sugar, salt?



Other initiatives

- List of non cooperative jurisdictions
- EU position at the UN’s work on tax governance
- Wealth tax: not a priority (legal basis)

Contacts



Gregory Jullien

Director

TAX

Tel. +352 45145 2924

Email: gjullien@deloitte.lu

The background of the slide is a blurred photograph of a conference or exhibition hall. In the foreground on the left, there are green plants. In the background, many people in business attire are walking around. The lighting is warm and comes from overhead fixtures.

Thank you



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