

Captive reinsurance companies in Luxembourg



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Luxembourg, June 30, 2003

Foreword

This brochure is designed to provide with a basic insight into the structure of the reinsurance industry in Luxembourg together with the legal, regulatory, accounting and tax framework.

This brochure has been prepared by auditors, tax and business advisers, which are members of the reinsurance group of PricewaterhouseCoopers in Luxembourg.

Every effort has been made to ensure the accuracy of the information contained in this brochure. In view of its purpose, the reader will appreciate that PricewaterhouseCoopers is unable to accept any liability for any errors or omissions.

Contents

I. Introduction	4
II. The general framework	5
1. General	5
2. Advantages offered by captive reinsurance companies	5
3. Advantages of Luxembourg	5
4. Advantages of setting up a reinsurance company in Luxembourg	6
5. Assistance from PricewaterhouseCoopers Luxembourg	6
III. The legal framework	7
1. General	7
2. Legal form	7
3. Share capital, equity and solvency margin	7
4. Supervision of reinsurance companies	8
4.1 Supervisory authority	8
4.2 Obtaining authorisation	8
4.3 Annual reporting	9
4.4 Annual financial statements and accounting policies	9
4.5 Independent audit	9
5. Management of reinsurance companies	10
6. Investment policy	10
IV. The fiscal framework	12
1. General	12
2. Corporate income tax	12
2.1 Provisions related to technical provisions	12
2.2 Provisions related to the equalisation provision	12
2.3 Provisions related to losses carried forward	13
2.4 Exemption of income arising from investments	13
3. Other taxes	14
3.1 Net wealth tax	14
3.2 Municipal business tax	14
3.3 Value-added tax	14
3.4 Tax on insurance premiums	14
V. PricewaterhouseCoopers in Luxembourg	15
Appendix A: Legislative framework in Luxembourg	17
Appendix B: Formation and operating costs	18
Appendix C: Key legal characteristics of a reinsurance company	19
Appendix D: Supervisory authority and professional associations	20
Contacts	

I. Introduction

The implementation in Luxembourg in 1984 of a favourable legal framework for reinsurance companies accounts for the sustained rate of set-ups of such companies into the mid-nineties. Notably, many reinsurance captives were set up by large groups as alternative tools to cover their risks. Since then, this industry seems to have slowed down somewhat, as it was influenced by the global economy and the overcapacity for risk coverage of the traditional reinsurance market, less favourable to the development of captive structures.

Nevertheless, the events of September 2001 and the recent wave of extreme weather conditions turned things around and upset the balance of accounts of traditional reinsurance players. On the other hand, global restructurings have picked up speed, groups of companies must face increased or new risks, the economic and financial environment is slowing down and becoming unstable, which upsets the global economic situation.

All these elements have rekindled interest for structures such as reinsurance captives. This should allow the Luxembourg market to expect new developments.

Nevertheless, if the economic situation of these past months has given this market renewed hopes, it should not be the only driver for these structures, which remain an outstanding risk management tool within groups.

The captive market in Luxembourg benefits from maturity and the many advantages we have summarised briefly in the first part of this brochure. This should work to its advantage and justify its international scale.

In this context, the Luxembourg legislation submitted to a recent tidying-up to keep pace with the development of the international context and the need for harmonisation at European level. Therefore, the new regulation includes certain amendments to the statutory legislation on technical provisions. This will allow Luxembourg reinsurance companies to fall within the scope of the European context even better and to confirm their status within the European Union. This is what we suggest developing in the third part of this brochure.

All the challenges have not been met yet however and there is still a lot of work to be done in the reinsurance sector. Indeed, the implementation of IAS standards, the increased role of corporate governance, own funds requirements, the fight against money laundering are several of the issues likely to lead to further changes in the current reinsurance framework in Luxembourg.

II. The general framework

1. General

This brochure is designed to provide general information on the regulations in Luxembourg covering reinsurance companies and to explain the advantages granted by the Grand Duchy of Luxembourg to these companies.

In general the regulations concerning reinsurance companies are applicable to captives and other reinsurance companies. In practice it is the captive companies which are most concerned with the current legislation. Therefore this brochure will only address the situation as it affects captives.

The brochure includes all fiscal and legal regulations in force up to June 30, 2003.

2. Advantages offered by captive reinsurance companies

To understand more clearly the incentives granted by the Luxembourg authorities to captives it is first necessary to discuss the notion of captive reinsurance companies and the advantages offered by them.

Since the 1950s, an increasing number of large international companies have realized that, for one reason or another, self-insurance could present certain economic benefits (for example due to the level of premiums demanded by insurance companies to cover certain risks), or even be essential since traditional insurance companies have not always been able to give satisfying answers to these companies' needs in terms of risk coverage.

In the classic situation these companies form a subsidiary (the captive) which receives premiums from group companies through their insurers (fronting company). In turn the captive can retrocede a part of the risk to the market. The net premiums held by the captive become available for investment (even within the group) until such time as the funds are needed to settle claims incurred.

Besides financial motivations, there are technical advantages for large corporations to constitute a captive. Creating a captive thus allows them to better manage risks, to stabilise premiums paid and even to reduce the costs of insurance thanks to better rates.

3. Advantages of Luxembourg

The Financial marketplace in Luxembourg experienced during the last decade an unprecedented development in several sectors. The presence in Luxembourg of 175¹ banks and 1919¹ mutual investment funds, managing € 849 billion¹, evidences that foreign investors and financial groups with cross-border activities are attracted to this marketplace.

Among Luxembourg's main advantages as a location for doing business, we can mention the following:

- A central position at the heart of the European marketplace, easily accessible from most European capitals;
- Highly-qualified and multilingual staff;
- A great political, economic and fiscal stability, essential to meet long-term objectives;
- A down-to-earth attitude of the tax authorities which leaves companies room to manoeuvre in accordance with European directives.

¹ Newsletter from the Commission de Surveillance du Secteur Financier in Luxembourg, July 10, 2003.

4. Advantages of setting up a reinsurance company in Luxembourg

Fiscal and legal regulations in Luxembourg provide incentives to groups wishing to set up a captive, notably that the latter may set up tax deductible equalisation provisions within certain limits and under certain conditions.

Whilst this possibility to create tax deductible equalisation provisions can reduce significantly the taxes payable over an extended period of time it should be stressed that this regime cannot be considered as an overriding regime of ordinary law.

The overall appeal of Luxembourg, the country's political stability, its efficient communications, flexible attitudes, the ability to obtain rulings quickly, the large financial centre, together with the fiscal incentives and the presence in Luxembourg of competent and competitively priced captive management companies make Luxembourg an attractive place to base such captive activities. As at January 1, 2003, 263¹ reinsurance captives are domiciled in Luxembourg.

5. Assistance from PricewaterhouseCoopers Luxembourg

Our office in Luxembourg has regular relationships with the main players of the reinsurance market (captive management companies, the local supervisory body for reinsurance, tax authorities and banks).

We can therefore assist you in every step of the formation of a reinsurance company in Luxembourg and advise you on how to manage such a company.

We are registered with the "Commissariat aux Assurances" as an independent qualified auditor for reinsurance companies.

Our international organization, which provides us with support, as appropriate, can count amongst its clients some of the world's leading insurance and reinsurance companies.

Part V of the brochure provides more insight into those of our abilities and services which will enable us to answer your questions and needs in reinsurance matters.

We trust that this brochure will give you an insight into the use of Luxembourg as a base for captive reinsurance operations. We will be happy to provide you with further information or assistance if you should require it.

¹ Data provided by the Commissariat aux Assurances.

III. The legal framework

1. General

The legal framework applicable to reinsurance companies is defined by the law of 6 December 1991 (and the modifications thereon as defined in the laws of 18 December 1993 and of 8 August 2000) as well as by the grand ducal regulation of 31 December 2001 enacting that law. One must add to these legal and regulatory provisions the circulars issued by the supervisory authority. All the pieces of legislation related to reinsurance companies are mentioned in appendix A.

2. Legal form

Reinsurance companies are required to take the form of a "société anonyme" (limited liability company). As a result the law of 10 August 1915 relating to commercial companies is applicable to them, except where specifically stated otherwise in the law of 6 December 1991. The key characteristics of a limited liability company as applicable to reinsurance companies are set out in appendix C.

3. Share capital, equity and solvency margin

The minimum capital for a reinsurance company is € 1 225 000. The minimum, which must be fully paid up at the time of constitution, must be 25% of capital with a minimum of € 1 225 000. The capital can be subscribed and maintained in any currency.

The equity of a reinsurance company which corresponds to the subscribed capital, share premiums, revaluation reserve, other reserves, results brought forward and results of the year will always have to exceed or be equivalent to the minimum capital of € 1 225 000.

Reinsurance companies must meet the requirements of a solvency margin in line with the way their commitments evolve. The grand ducal regulation of 31 December 2001 sets out the minimum solvency margin as follows:

- (i) non-life related risks - 10% of annual earned premiums, net of reinsurance premiums ceded;
- (ii) life related risks – the company's own resources must never be less than 2% of mathematical provisions net of reinsurance ceded relating to these risks and 0.05% of capital under risk for the temporary death insurance net of reinsurance ceded.

Items which make up the solvency margin correspond to the reinsurance company's assets as follows:

- Paid up share capital;
- All reserves (including the legal and free reserves) not forming part of the technical provisions;
- Result brought forward after deduction of dividends to be paid for the latest financial year.

Intangible assets and own shares of the company are not part of the solvency margin.

Furthermore, the solvency margin may be constituted under certain conditions:

- Up to a limit by preferred shares, debenture loans and securities with an indefinite duration;
- After obtaining the approval from the Commissariat aux Assurances, by an amount not exceeding half the non paid-up capital but provided a minimum of 25% of the share capital is paid and also by unrealised gains on non-exceptional assets but after deduction of unrealised losses.

4. Supervision of reinsurance companies

4.1 Supervisory authority

The "Commissariat aux Assurances" ("the Commissariat") is the controlling and supervisory body for the insurance and reinsurance sector. The Commissariat is placed under the authority of the Minister who is competent for insurance and reinsurance matters. Traditionally, supervision of this sector is considered as pertaining to the Treasury Department.

The mission of the Commissariat is to:

- receive and examine any application for authorisation addressed to the Minister;
- supervise the insurance, reinsurance and insurance agent sector;
- ensure the coordination of the implementation of government initiatives and measures which promote an organized growth of the insurance and reinsurance sector in Luxembourg;
- follow-up the dossiers within the EU and international scope;
- submit suggestions to the government in order to improve the legal and regulatory environment;
- examine any other issues which will be submitted by its relevant Minister.

The first tool at the disposal of the Commissariat is the introduction of the authorisation dossier. The Commissariat examines the authorisation dossiers and submits its opinion to the Minister.

4.2 Obtaining authorisation

Any reinsurance company which is looking to carry out reinsurance transactions in Luxembourg needs to obtain prior authorisation from the Minister.

It is at the time of application that the "Commissariat aux Assurances" plays a decisive role. Reinsurance companies seeking authorisation must present a detailed plan to the "Commissariat aux Assurances" which includes principally:

- a copy of the company's statutes;
- the latest published accounts of its direct and indirect shareholders;
- detailed information on directors, persons in charge of management as well as shareholders in order to guarantee complete transparency of the structure to be implemented;
- the name of the company's independent auditor and of the authorised manager;
- proof that the share capital was created lawfully and that the assets underlying the share capital are located in Luxembourg;
- a business plan including a description of the risks to be covered, details of the ceding and retroceding companies, details of the plan for retrocession of risk of the captive, the amount of accepted and retroceded premiums, the address where the accounting records and other documents will be kept, a three-year forward plan.

Based on the information related to the observed or estimated loss ratios per risk or risk category, the Commissariat will determine the multiples to be applied to such risks or risk categories. These multiples are critical to determine:

- (i) the minimum share capital required by the Commissariat;
- (ii) determine the maximum level of the tax-deductible equalisation provision which can be set up.

Multiples will be established for a five-year period barring any material change to the business plan.

Any reinsurance company needs to appoint a manager, who can be a natural or legal person and will need to have obtained a prior authorisation from the Commissariat. This manager must be able to demonstrate that he has the required professional knowledge, the professional integrity and standing and be resident of or have chosen residence in the Grand Duchy of Luxembourg. He will act as a special spokesperson on behalf of the reinsurance company with the Commissariat.

4.3 Annual reporting

In compliance with the Commissariat's circular letter 99/6 (as completed by the circular letter 03/3), the reinsurance company must send the Commissariat a yearly account which shall include:

- a balance sheet;
- a profit and loss account;
- an appendix on overhead expenses;
- a table showing the geographical breakdown of premiums;
- a table determining the ceiling for the equalisation provision;
- triangular tables on provisions for incurred but not reported claims (IBNR);
- an information statement.

4.4 Annual financial statements and accounting policies

The provisions of the law of 8 December 1994 have introduced new obligations as to annual accounts and consolidated accounts of insurance and reinsurance companies. This law incorporates the requirements of European Council directive EEC/91/674 and, with a view to facilitating European integration, makes certain that all insurance and reinsurance companies follow the same basic accounting principles, thus guaranteeing an improved consistency of financial statements.

You will find further information on the subject in our publication called "Insurance and reinsurance companies in Luxembourg: a guide to financial statements".

4.5 Independent audit

Each reinsurance company must submit to an external independent audit to be carried out annually by an independent auditor who shall be selected from a list authorised by the Commissariat.

In addition to the auditor's report on the annual accounts and in accordance with the Commissariat's circular letter 02/2, the auditor must draw up a report to be sent to the audited company with a copy to the Commissariat. Thus, the independent auditor assists the Commissariat in its general supervision tasks.

This report must:

- mention the date of the audit report as well as any possible qualifications and the date of the general shareholders' meeting called to approve the audited accounts and indicate whether the company fulfilled the obligation to submit its accounts related to the previous year;

- certify whether the company has a sufficient solvency margin on the closing date;
- describe any activities which are not linked directly to the coverage of insurance risks;
- break down the technical provisions at closing date between amounts notified to the company by the ceding companies and the adjustments made by the reinsurance company itself. In the latter case, indications shall be given on calculation and assessment rules;
- describe the reinsurance company's investment policy, including its policy on derivatives;
- indicate all major dealings with related or participating companies;
- describe the powers of the authorised manager in terms of day-to-day management of the company.

This special report should be finalised and mailed to the Commissariat at the earliest opportunity but at the latest at the end of the fourth month which follows the closing date and notwithstanding the fact that the audit report was not issued yet.

On the other hand, the auditor shall also inform the Commissariat of any fact or decision related to the company that he is aware of and especially anything related to the non-compliance with legal or regulatory provisions or to the carrying on of the business.

5. Management of reinsurance companies

Reinsurance companies shall be effectively managed in the Grand Duchy of Luxembourg by a manager authorised by the Commissariat. The daily management of the reinsurance company shall consequently be carried out in Luxembourg. This requirement is set forth both in the law and the related regulations.

The said management can be carried out directly by an authorised manager within the reinsurance company or by using the services of a company specialising in the management of this type of undertakings in Luxembourg. Generally, someone from the company will be appointed manager and this resident person will be authorised as manager by the Commissariat. Using this kind of company avoids the implementation of an administrative structure within the reinsurance company. Nevertheless, whatever the chosen solution, the authorised manager's authority as to day-to-day management will have to be described in the special report to be issued by the auditor in accordance with the provision of the Commissariat's circular letter 02/2.

The appointed manager will need to obtain the Minister's prior agreement and therefore will need to reside in the Grand Duchy of Luxembourg or in its immediate vicinity in order to effectively attend to the undertaking's day-to-day management and to prove his personal standing and professional qualifications. Regarding the latter requirement, the law provides for the possibility of having these managers undergo some trade tests.

The authorised manager, acting as representative of the reinsurance company, will also act as spokesperson with the Commissariat in order to ensure adequate communication with the supervisory authority.

6. Investment policy

The law applicable to reinsurance companies in terms of investments did not provide any quantitative limits as it did in the field of direct insurance.

Nevertheless, without setting any strict rules, the law stipulates that the investments should be made carefully and wisely since these assets are representative of technical provisions and take into account the reinsurance transactions. Thus, article 11 of the grand ducal regulation of 31 December 2001 states that investments shall be made in such a way so as to ensure their security, return and liquidity.

On those bases and taking into account the nature of reinsurance transactions, the investment policy should guarantee the matching between the maturities of the liabilities, mainly made up of technical commitments and those of the investments.

Finally, the special report will also be an indicator of the investment choices made by the company insofar as it will break down investments by category, provide details on intra-group lending transactions and describe the derivatives policy as well as illustrate their impact on the reinsurance undertaking's assets.

IV. The fiscal framework

1. General

Reinsurance companies are subject to those taxes applicable to commercial companies with a registered office in Luxembourg, that is to say:

- corporate income tax;
- net wealth tax;
- municipal business taxes.

Specific regulations on the taxation of authorised reinsurance companies have been introduced. Like banks, reinsurance companies can also benefit from the tax neutralisation regime of fiscal exchange gains on equity investment.

2. Corporate income tax

Like all Luxembourg commercial companies, reinsurance companies are liable to corporate income tax at the rate of 22% plus a contribution to the Employment fund of 4%. The actual rate is therefore of 22.88%. The taxable base corresponds in principle to the accounting result after deduction of some exemptions and addition of some non-deductible charges (such as the corporate income tax, the municipal business tax, the net wealth tax and the tax on directors' fees).

2.1 Provisions related to technical provisions

Reinsurance companies must set up sufficient technical provisions at the end of each financial year. These tax-deductible technical provisions are set up as follows:

(i) non-life

- provisions for reported and unreported claims must be reviewed and adjusted at the end of each year on the basis of the estimated final cost of the claims and amounts already paid;
- provisions for unearned premiums (i.e. that part of the premiums received in the year which relates to following years).

(ii) life

- mathematical provisions and unearned premiums calculated according to actuarial rules accepted by the "Commissariat aux Assurances".

2.2 Provisions related to the equalisation provision

In addition to the technical provisions referred to above, the Grand Ducal Regulation of 31 December 2001 requires the creation of a tax-deductible equalisation provision as explained below. This equalisation provision is designed to cover exceptional or significant claims which may occur.

The equalisation provision is determined separately for each risk category according to the past claims ratio.

Individual coefficients, established by the Commissariat, are attached to each risk or risk category. The way they are determined is based on internationally recognized scientific criteria, therefore measurable objectively.

The ratios are set at 6 times the standard deviation of the "loss premium" ratio recorded for a given risk or risk category. Generally speaking, all actuaries and insurance professionals consider the standard deviation as a good indication of the actual fluctuation in claims of insurance or reinsurance coverage. Each ratio is in principle subject to a lower limit of 2.5 but could be brought down to 0 if the observed fluctuation in claims did not call for a provision to be constituted. It is worth noting that the established ratios are reviewed every five years or even more often when the business plan of a reinsurance company undergoes material changes. This review aims at monitoring the evolution of the fluctuation in claims for insured risks.

Even if theory, the individual coefficients are no longer limited, there is nevertheless a ceiling for the equalisation provision which cannot exceed 17.5 times the average net premiums purchased by the reinsurance company over the last five years. By introducing such a limitation, the regulation goes beyond the equalisation provision regime introduced by the 87/343/EEC directive.

Under the former law, the yearly allocation to the equalisation provision had to be equal to the company's operating income and non-operating revenues and expenses. This regime, however, allowed the Commissariat aux Assurances to grant a lower allocation to the equalisation provision if certain requirements were met.

In this respect, the new grand ducal regulation of 31 December 2001 introduces a major change by changing the status of the reduced allocation from the exception to the basic principle.

Within this framework, the reinsurance company must constitute an allocation corresponding to the technical balance and to part of the financial balance. The latter is determined on the basis of a technical rate, established as in life insurance, at 60% of the rate of return of long-term state bond loans and applied to the technical provisions recorded in the latest annual accounts. This implies that the portion of income generated by a return above the technical rate would have to be linked to the profits and would be subject to tax before being possibly distributed as dividends. Furthermore, it is worth noting that capital gains or losses on "investments and debts on related undertakings" are excluded from the financial balance to be allocated to the equalisation provision.

Nevertheless, to ensure that the equalisation provision is sufficient to face fluctuations in claims of insured risks and to keep it from destabilizing the reinsurance company, the whole financial balance must be allocated as long as the equalisation provision remains under 30% of the maximum theoretical amount as indicated above.

In view of the drastic changes provided by the grand ducal regulation of 31 December 2001, transition measures have been provided for all reinsurance companies agreed before December 31st, 2001. Therefore, if they wish, they can continue to benefit from the former assessment and allocation rules pursuant to the former legislation in force for a period of five years.

2.3 Provisions related to losses carried forward

Whenever an equalisation provision exists on the balance sheet of the reinsurance company, the result for the year cannot show a loss. In fact the provision has to be reduced and an amount released to income, to the extent of any losses incurred (for example, in the year when a large claim is incurred). If the equalisation provision is not sufficient to cover the loss, then the net loss, after release of the provision, can be carried forward without time limitation. In addition, even if the accounts are balanced, a reinsurance company may show a tax loss by operation of the exemptions described below.

2.4 Exemption of income arising from investments

Exemption of received dividend payments

Dividends arising from investments which comply with the following requirements are exempted from tax:

- (i) at least 10% of subsidiary's share capital or minimum purchase price of € 1 200 000;

- (ii) uninterrupted shareholding of 12 months on the dividends' distribution date with a possibility of undertaking to hold the investment for the pending period;
- (iii) investment in a fully taxable, resident or non-resident company or in a company resident in a Member State of the European Union contemplated in the Directive of 23 July 1990.

Should these requirements not be met, an exemption of 50% of the dividends is possible if they are allocated by:

- (i) a fully taxable resident joint-stock company;
- (ii) a joint stock company resident in a state with which Luxembourg concluded a double tax treaty and the said company is fully taxable to a tax which corresponds to the corporate income tax;
- (iii) a company resident in a Member State of the European Union and contemplated by article 2 of the parent-subsidiary directive.

Exemption of capital gains on the disposal of share investments

Capital gains on the sale of share investments, which comply with the following requirements, are tax exempt:

- (i) at least 10% of subsidiary's share capital or minimum purchase price of € 6 000 000;
- (ii) uninterrupted shareholding of at least 12 months on the date of disposal;
- (iii) investment in a fully taxable, resident or non-resident company or in a company resident in a Member State of the European Union contemplated by article 2 of the Directive of 23 July 1990.

3. Other taxes

3.1 Net wealth tax

This tax is levied, at a rate of 0.5%, on the net worth of the company at the beginning of the year. This tax is not deductible from taxable profit to compute the corporate income tax and the municipal business tax. "Net worth" is equivalent to the net assets of the company as adjusted for certain items mainly relating to buildings, deferred gains and significant investments in other companies. The equalisation provision is regarded as a liability in determining net worth. This tax may be reduced up to a fifth of the profit amount allocated to a special reserve kept in the balance sheet for the five following years.

3.2 Municipal business tax

In the city of Luxembourg, the municipal business tax on profits is levied at a rate of 7.5%. These profits are determined after deduction of an allowance of € 17 500 on the taxable base for corporate income tax. Corporate income tax and net wealth tax are not deductible from profits for the computation of this tax.

3.3 Value-added tax

Reinsurance companies are subject to VAT, whilst most of their activities are VAT exempt. Input VAT is recoverable in proportion to reinsurance premiums originating from insurance companies located in countries outside the European Union.

3.4 Tax on insurance premiums

Premiums related to reinsurance policies are exempt from tax on insurance premiums.

V. PricewaterhouseCoopers in Luxembourg

Within one single entity, PricewaterhouseCoopers gathers multidisciplinary, qualified professionals in the insurance and reinsurance sectors. Through the services we provide, we compare and share our specific expertise in order to meet the needs of our clients. Thus, they can benefit from our advisors' experience within the framework of a truly multidisciplinary approach. We provide below a non-exhaustive list of the various services provided.

1. Assurance and Business Advisory

Further to the certification of annual accounts as part of an audit assignment, we may carry out several other audit assignments and related tasks, such as:

- preparing special reports required by the law, specifically when a company increases its share capital via a contribution in kind or when companies merge or demerge;
- auditing or reviewing activities of companies as part of acquisitions and, as the case may be, valuation of these companies;
- analysing, reviewing and implementing procedures.

2. Risk Management Solutions

This is mainly related to the following fields:

- Review of computer applications and accesses;
- Implementation of internal control structures (COSO models, etc.);
- Implementation of tools to ensure control follow-up;
- Risk management and internal control;
- Market analysis and access studies;
- Internal audit assignments;
- Corporate governance.

3. Tax, Advisory and Regulatory

We have a vast experience in taxation and regulations for insurance and reinsurance companies. Among other things, our qualifications include the following:

- Taxation of insurance and reinsurance companies as well as related products;
- Taxation and regulations related to the distribution of insurance products;
- Tax audit as part of consolidated controls or company acquisition projects;
- Timely regulatory and tax market watch tailored to monitor issues impacting product distribution of financial products in target countries.

4. Actuarial

Our actuarial advisory practice mainly deals with the following areas:

- Providing advice to insurance and reinsurance companies:
 - company valuation, insurance and reinsurance portfolio valuation;
 - analysis and breakdown of insurance company profitability;
 - asset portfolio and derivatives valuation;
 - feasibility studies and set-up of insurance and reinsurance companies;
 - creation and valuation of insurance and reinsurance products, treaties and software programmes;
 - Asset Liability Management (ALM) analysis.
- Providing advice on pension plans and other benefits:
 - analysis and implementation of pension plans and other benefits in line with corporate objectives;
 - analysis of various financing vehicles (pension funds, provisions in the balance sheet, Pension savings associations – ASSEPs, pension savings companies with variable capital – SEPCAVs, group insurance, etc.);
 - ALM analysis.

5. Human Resources

We have specific skills in human resources. The services provided by this department are especially related to the following fields:

- Advice on human resources management and organisations development:
 - human resources audit;
 - complete reengineering of human resources departments;
 - implementation of human resources management software;
 - job and performance management.
- Advice on remuneration and salary packages:
 - carrying out of salary benchmarks;
 - bonus models.

Appendix A

Legislative framework in Luxembourg

1. Rules and regulations

I - Insurance law of 6 December 1991, as modified by the laws of 18 December 1993, 8 December 1994 and of 8 August 2000.

- Part I: The Commissariat aux Assurances
- Part II: Insurance undertakings
- Part III: Reinsurance undertakings
- Part IV: Insurance managers, agents and brokers
- Part V: General and penal provisions
- Part VI: Miscellaneous provisions
- Part VII: Transitional and final provisions

II - Law of 8 December 1994 on annual accounts and consolidated account of insurance and reinsurance undertakings under Luxembourg law

III - Grand ducal regulation of 31 December 2001 implementing the modified law of 6 December 1991 specifying agreement and operation procedures for reinsurance undertakings

IV - Grand ducal regulation of 16 May 2002 relating to the contribution to the staff and operating costs of the Commissariat aux Assurances

2. Circular letters from the Commissariat aux Assurances

LC4/93	19/03/93	Social objects of reinsurance undertakings
LC98/3	25/09/98	Mergers or demergers of insurance or reinsurance undertakings
LC98/5	09/11/98	Portfolio transfer of reinsurance undertakings
LC99/6	26/03/99	Annual report of reinsurance undertakings (as completed by LC03/3)
LC00/1	12/01/00	OECD Council recommendations on valuation of reinsurance companies
LC02/2	06/02/02	Special report to be provided by the auditor of reinsurance undertakings
LC02/5	23/04/02	Various topics applicable to reinsurance companies
LC02/7	25/06/02	Changes of shareholders of reinsurance companies
LC02/8	22/11/02	Directors control of reinsurance companies

Appendix B

Formation and operating costs

1. General

We set out below the formation and operating costs which will normally be incurred by reinsurance companies.

2. Formation and feasibility study costs

<i>Type of expense</i>	<i>Amount</i>
Involvement of a management company (for example in a feasibility study)	dependent upon the services requested
Registration duty	1% of issued capital
Notarial fees	approximately € 2 000
Publication and registration costs	approximately € 600
Request for authorization from the Commissariat aux Assurances	€ 1 500

3. Operating costs

<i>Type of expense</i>	<i>Amount</i>
Commissariat aux Assurances	€ 3000 per year
Management company fees	to be determined with the management company
Publication and registration fees	minimal
Independent auditors' fees	to be determined with the independent auditors

4. Taxes

<i>Type of expense</i>	<i>Amount</i>
Corporate income tax	see point 2
Net worth tax	0.5% of the net worth
Municipal business tax	see point 3.2

Appendix C

Key legal characteristics of a reinsurance company

Shares and capital

Minimum issued capital	€ 1 225 000
Minimum paid-up capital	25% of the capital with a minimum of € 1 225 000
Currency	any currency
Minimum number of shareholders	2
Companies allowed as shareholders	yes

Directors

Minimum number	3
Residence and nationality qualifications	none
Companies allowed as directors	yes

Managers

Residence qualifications	Luxembourg
Nationality qualifications	none
Professional qualifications	must obtain the acceptance of the Commissariat aux Assurances

Independent auditor

Number	1
Residence qualifications	Luxembourg
Professional qualifications	Luxembourg registered auditor approved by the Commissariat aux Assurances

Appendix D

Supervisory authority and professional associations

The Commissariat aux Assurances ("Commissariat")

7, boulevard Royal
L-2449 Luxembourg

Tel.: (352) 22 69 11-1

Fax: (352) 22 69 10

Postal address: BP 669
L-2016 Luxembourg

www.commassu.lu

Association des Gestionnaires de Réassurances ("AGERE", Association of Reinsurance Managers)

3, boulevard Royal
L-2449 Luxembourg

Institut des Réviseurs d'Entreprises ("IRE" Institute of Auditors)

68, avenue de la Liberté
L-1930 Luxembourg

Tel.: (352) 29 11 39

Fax : (352) 29 13 34

www.ire.lu

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