Considerations for the boardroom of insurance companies 2025

First edition

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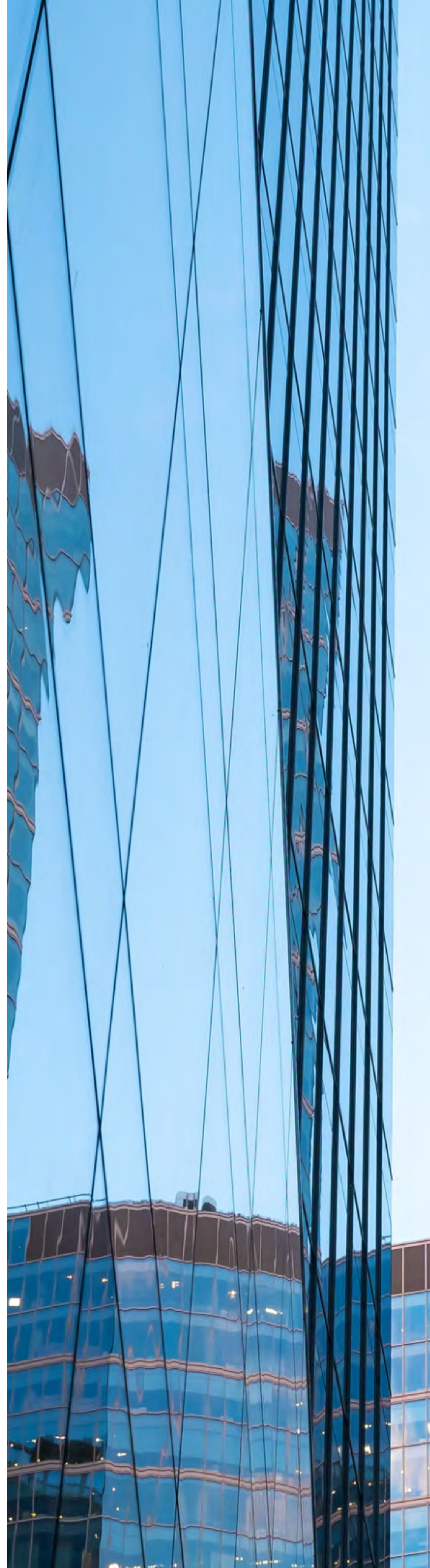

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Executive summary

We're thrilled to present the inaugural edition of Considerations for the boardroom of insurance companies, a thoughtfully crafted toolkit designed to navigate the ever-evolving landscape of the insurance sector. This comprehensive guide delves into the key topics that are shaping the industry, offering valuable insights to empower and enrich your boardroom discussions.

In this edition, you'll find a concise yet in-depth overview of the most pressing priorities facing boardrooms today. To further elevate your strategic conversations, we've incorporated a series of thought-provoking questionstailored to help you assess your company's positioning on these critical matters. Whether you're focused on governance, risk management, innovation or compliance, this guide is here to support informed decision-making and drive meaningful progress for your organization.

We wish you a pleasant and insightful read.

KPMG

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Digital Operational Resilience Act (DORA)

Effective since January 2023, DORA is the EU's regulatory framework for managing information and communications technology (ICT) and supplier risks. It aims to improve the financial sector's ability to withstand and recover from disruptions and threats.

A crucial component of the European Commission's digital financial package, DORA's primary objective is to ensure that financial market participants can maintain safe and reliable operations, even in the face of significant ICT disruptions.

Financial institutions were granted a transition period until 17 January 2025 to achieve full compliance.

Luxembourg's "DORA Law", published on 1 July 2024 and effective since 17 January 2025, transposed DORA's rules into local regulation, empowering national authorities with necessary supervisory and investigative powers.

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What is required?

DORA sets out a comprehensive framework for managing risks linked to the financial sector's growing digitalization and the dynamic cyber threat landscape. So, what steps must insurers take to comply?

Governance and organization

- Create a comprehensive ICT risk management framework to ensure resiliency, enabling the identification, assessment, management and monitoring of ICT risks
- Ensure the insurer's management body is ultimately responsible for achieving digital operational resilience.

Digital operational resilience testing

- Create a risk-based digital operational resilience testing program as an integral part of the ICT risk management framework
- Perform advanced testing based on threat-led penetration testing (TLPT)
- Implement requirements for testers carrying out the TLPT.

ICT risk management framework

- Ensure all sources of ICT risks are identified, assessed, managed and monitored
- Protect ICT systems and detect anomalous activities
- Implement response and recovery plans and procedures.

Third-party risk management

- Establish ICT third-party risk as an integral part of the ICT risk management framework
- Create a strategy for ICT third-party risk
- Establish a register of information
- Perform pre-contracting analyses of ICT services
- Promote standard contractual clauses

ICT-related incident management, classification and reporting

- Implement an incident management process and monitor ICT-related incidents
- Classify ICT-related incidents and cyber threats
- Report major ICT-related incidents to authorities.

Information-sharing arrangements

- Reinforce the legal grounds for information-sharing arrangements on cyber-threat data and intelligence.

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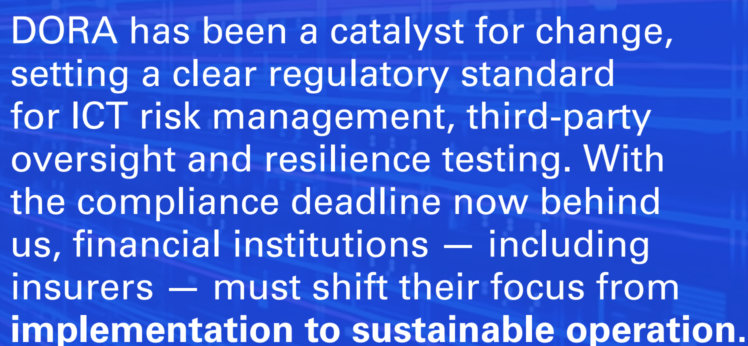
Beyond compliance: operationalizing DORA for long-term resilience



DORA has been a catalyst for change, setting a clear regulatory standard for ICT risk management, third-party oversight and resilience testing. With the compliance deadline now behind us, financial institutions — including insurers — must shift their focus from **implementation to sustainable operation.**

Many organizations have taken the necessary first steps — creating policies, setting up governance structures, and defining risk management frameworks. However, **true operational resilience is not about a one-time compliance exercise but about embedding DORA into business-as-usual (BaU) operations.** The question is: Are insurers truly ready to **live and breathe** DORA in their daily operations?

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Key challenges in the "day two" DORA landscape

Now that the foundational work is in place, insurers must refine, adapt and mature their approaches to ensure that DORA remains effective in the long run. The following key challenges will define success in this next phase:

1. From policies to execution: are insurers moving from design to operate?

Having an ICT risk management framework is one thing; ensuring it's continuously updated, tested and enforced is another. The first regulatory inspections will assess not just the existence of policies but their effectiveness in preventing disruptions. Regular testing, validation and lessons learned from cyber incidents must drive framework evolution.

2. Mastering third-party risk management: are insurers managing the "weakest links"?

Insurers increasingly rely on external providers for core ICT services, making third-party risk management a critical weak spot. Ensuring end-to-end visibility across all ICT dependencies — direct and indirect — is key to avoiding systemic vulnerabilities. Insurers that fail to integrate real-time monitoring and risk assessment of third-party providers will struggle with compliance and operational risks.

3. Sustaining resilience: is DORA embedded in decision-making?

Resilience must become a strategic function rather than an operational afterthought. The board and leadership must embed digital resilience into broader risk management and business continuity strategies, ensuring it's regularly discussed at the highest levels. A failure to do so could expose firms to regulatory scrutiny and reputational damage.

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Questions that may be raised

01 **From policy to practice** Are our risk management controls truly operational and effective, or do they remain mostly on paper?	**02** **Ongoing testing and evolution** How consistently do we test our controls, learn from incidents, and adapt to emerging threats?
03 **Third-party oversight** Are our controls robust enough to identify and mitigate risks across our entire provider ecosystem?	**04** **Real-time visibility** Do we have real-time monitoring and governance in place to prevent our external partners from becoming weak links?
05 **Resilience at the core** Is operational resilience factored into strategic decision-making, or is it treated as an operational add-on?	**06** **Sustaining compliance and trust** How effectively are we maintaining compliance and demonstrating the strength of our controls to regulators and stakeholders?

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The EU's AML Package is finally here

In July 2021, the European Commission presented an ambitious suite of legislative proposals to strengthen the EU's anti- money laundering (AML) and countering the financing of terrorism (CFT) rules, commonly known as "the AML Package". After more than two years of negotiations, the European Parliament adopted the AML Package on 24 April 2024.

The AML Package consists of three legislative instruments[1]:

- The EU Single Rulebook REgulation (AMLR)
- The Anti-Money Laundering Authority Regulation (AMLAR)
- The sixth Anti-Money Laundering Directive (AMLD 6)

The AML Package's key developments include:
The AMLR (currently in effect and applies as of July 2027).

- This single rulebook legislation aims to harmonize approaches across EU Member States. Unlike a directive, the regulation directly applies to Member States and does not require transposition.

It enforces EU-wide rules on:

- Scope of obliged entities
- Internal policies, controls and procedures of obliged entities
- Customer due diligence
- Beneficial ownership transparency
- Reporting obligations
- Record retention
- Measures to mitigate risks deriving from anonymous instruments.

The threshold to determine beneficial ownership in corporate entities has been set at 25%. However, Member States may identify categories of higher-risk corporate entities and propose a lower threshold, which should not fall below 15%.

- **The AMLAR** (currently in effect and applies as of July 2025)

[1] The recast of the Transfer of Funds Regulation, initially part of the AML Package, was uncoupled and adopted separately in June 2023.

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The AMLAR establishes an AML competent authority at the EU level known as the Anti-Money Laundering Authority (AMLA).

AMLA will be:

- Seated in Frankfurt am Main, Germany.
- Accountable to the European Parliament and the Council for the AMLAR's implementation.

From 2028, one of AMLA's key roles will be directly supervising at least 40 selected obliged entities and indirectly supervising non-selected obliged entities.

The AMLD 6 (currently in effect and must be transposed into Member States' legislation by 10 July 2027). The directive sets, amongst others, enhanced rules regarding beneficial ownership information and its recording in Central Registers.

While the AMLR will only apply from July 2027 and the AMLD 6 still requires transposition, financial institutions should assess the AML Package's impact on their operations and start preparing. KPMG's dedicated team of AML and CFT specialists is ready to support you in this journey.

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The rising cost of financial crime compliance

A LexisNexis Risk Solutions study revealed that financial crime compliance costs increased for an overwhelming 98% of EMEA financial institutions in 2023, who collectively spend over US$85 billion annually on these efforts[2].

Significant increase in technology-related costs

Technology costs regarding networks, systems and remote work have risen at 70% of organizations in EMEA and 67% in Europe. Most of these costs were for compliance and know-your-customer (KYC) software.

Emerging risk of cryptocurrencies, digital payments and artificial intelligence (AI) technologies

Twenty-nine percent of financial institutions indicated that evolving criminal threats are the most significant factor driving an increase in financial crime compliance costs. This is surpassed only by the costs related to financial crime regulations and regulatory expectations (38%), and the increased requirement for automation, data and tools (32%).

Increasing labor costs

Seventy-two percent of organizations' labor costs related to full-time employees and part-time salaries have risen over the past 12 months.

[2] Kangkan Halder, "98% report rising financial crime compliance costs: survey," Delano, 19 March 2024.

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It's important to remember that in addition to direct expenditures like staffing and screening, monitoring and reporting technology, the true cost of compliance also includes potential administrative fines from regulators. As the old saying goes: if you think compliance is expensive, wait and see how much non-compliance will cost you.

And there's a cost that can be harder to quantify - the one of lost opportunities. Lengthy onboarding processes and unnecessarily blocked accounts and transactions can lead to poor customer experience (CX) and missed business opportunities.

The most suitable way to control financial crime costs depends on the organization's business and operational model, existing AML/CFT framework, and risk appetite. Popular solutions include automation and technology, first-time-right strategies, lean processes, and outsourcing and co-sourcing.

Don't hesitate to reach out to KPMG to discuss your unique needs. We offer cost-effective, technology-driven solutions that shrink turnaround time, coupled with experienced resources in a wide range of financial crime matters.

Questions that may be raised

01 Have we prepared for the changes of the EU's AML Package?	**02** Are we considering a cost-effective and technology-driven solution that reduces turnaround time?
03 Do we have a growing backlog of due diligence files to review?	**04** Do we lack inhouse AML and CFT expertise or resources?
05 Are we struggling to meet our deadlines regarding initial and ongoing due diligence cycles?	**06** Are our procedures adequate and in line with AML and CFT requirements?

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ESG disclosures

While financial institutions are well used to complying with different regulations, the current dynamic and fast-paced regulatory landscape requires multiple reporting disclosures that responsible insurers must prepare for.

To meet consumers' growing demand for transparency and accountability, insurers must prioritize their environmental, social and governance (ESG) practices. Here are the main ESG and sustainability challenges that insurers' face, and the steps to tackle them:

Put my ESG strategy into motion

How can I define an ESG strategy and put it into practice?

Adapt my operating model to address ESG opportunities

How should I update my operating model to comply with the integrated regulatory framework and create value?

Report according to the SFDR's final RTS

How should I address the reporting requirements of the final RTS?

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Required disclosures: what are they, and why are there so many?

Insurance companies must disclose a range of information on their ESG practices, which differ in purpose and content.

- The **Corporate Sustainability Reporting Directive (CSRD) complements an institution's annual financial report** to promote sustainable investment and firms' accountability toward ESG practices. Insurers must define their ESG goals and disclose their progress using qualitative and quantitative measures.

- The **EU Taxonomy Regulation** sets the criteria for assesing how insurers' activities align with the EU Taxonomy. This includes evaluating the proportion of their investments and underwriting activities that contribute to environmental objectives. The aim is to guide insurers' financial strategies toward sustainable initiatives and provide stakeholders with transparency on their contribution to environmental goals.

The **Sustainable Finance Disclosure Regulation (SFDR)** sets requirements for financial market participants to disclose sustainability information. This helps **investors make informed choices based on companies' sustainability profiles** and how they manage and account for sustainability risks in their investment decision process.

- The **Insurance Distribution Directive (IDD),** particularly its Delegated Regulation, ensures that insurers and intermediaries understand, recommend and sell insurance-based investment products (IBIPs) to the appropriate target market while meeting clients' expectations regarding their sustainability preferences. Aligning with the **second Markets in Financial Instruments Directive's (MiFID II)** approach to financial instruments, IDD integrates sustainability considerations into IBIPs' design and distribution.

On February 26, the European Commission unveiled its proposal for the first omnibus package aimed at simplifying the **Corporate Sustainability Reporting Directive (CSRD)**, the **Corporate Sustainability Due Diligence Directive (CSDDD)**, and the EU Taxonomy. This proposal introduces several key changes to the **CSRD** that could significantly impact sustainability reporting across the EU. Notably, the new proposal limits reporting requirements to large undertakings with more than 1,000 employees. This includes companies with either a turnover exceeding EUR 50 million or a balance sheet total above EUR 25 million. To learn more about the omnibus package, contact your KPMG team.

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- Article 304 of the **amended Commission Delegated Regulation (EU) 2015/35** incorporates ESG risks into insurers' Pillar 3 reporting requirements. It aims to promote market discipline by enhancing the transparency and disclosure of insurers' ESG risk exposures and risk management practices. This ensures stakeholders have clear insights into how insurers assess and address sustainability-related risks.

- The **Partnership for Carbon Accounting Financials (PCAF) guidelines** enable the **accurate tracking and reporting** of financed emissions, **helping insurers meet their sustainability goals** and improve transparency with stakeholders regarding scope 3 carbon emissions. It also supports risk management by identifying carbon-related exposures and aligning with global climate targets.

- Finally, several regulations, such as **SFDR** and the amendments to the **Solvency II Directive,** require insurers to identify, measure and monitor their exposures to climate-related and environmental risks.

1. Insurers must collect data and conduct balance sheet stress testing, incorporating negative scenarios related to climate and environmental factors.
2. In particular, **SFDR** emphasizes transparency regarding sustainability risks and adverse impacts in insurers' investment and underwriting practices.
3. While these rules prescribe enhanced internal processes for assessing and managing these exposures, they do not impose additional public disclosure requirements beyond those of **Solvency II's Pillar 3** and the **SFDR's** reporting obligations.

Key challenges raised

The major hurdles faced by insurers include:

- **The unprecedented variety and amount of new data points** that insurers must collect and process on their counterparties, products, partners and providers. Over 500 data points are required to publish these disclosures, based on various regulatory and reporting frameworks like Solvency II, SFDR and the EU Taxonomy. This necessitates insurers to analyze and implement new data collection processes, usage protocols, storage systems and controls to effectively manage this increased volume and complexity.

- The sheer number of internal stakeholders impacted by these disclosures' requirements. This includes:

1. Underwriting teams responsible for designing and pricing insurance products
2. Investment teams managing the insurer's portfolio
3. The second and third lines of defense
4. Top management
5. Departments like actuarial, risk, compliance, data governance and HR.

Each stakeholder plays a critical role in making sure the insurer meets its regulatory obligations and aligns its practices with sustainability and transparency goals.

As insurers adapt to comply with these ESG considerations and disclosure requirements, they must apply good governance principles and coordinate with all relevant stakeholders to prepare for these new standards.

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Questions that may be raised

01 As board members, what is our collective understanding of responsible insuring and integrating ESG considerations into our day-to-day business, operations and acquisitions?	**02** Have we identified our ESG ambitions? Should existing products be adapted, and are there opportunities for new products? How should we measure our ambitions?
03 Have we identified the disclosure information required as of January 2023? Were we able to produce all related information? Are we ready for the upcoming disclosures, or is there any difficulty foreseen in the collection and reporting process?	**04** Have we identified how many data points we must collect to comply with our ESG disclosure requirements?
05 Are our databases and data collection processes ready to manage the increased amount of new data?	**06** Have we assessed third-party providers to supply the required data and support us in the reporting process?

07 How are we addressing any additional information requests from the Commissariat aux Assurances (CAA) or the Commission de Surveillance du Secteur Financier ? Are we prepared for any potential ESG site inspections?

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From AML to anti-tax crime laundering: can you manage your tax risks?

When the scope of AML widens to tax crime, compliance officers need to hit the tax books. And when the regulator also comes into play, the topic is a must for the boardroom.

Today's tax landscape is driven by heightening tax obligations, with a shift toward increasing tax transparency and enhancing tax conformity for financial services and professionals supervised by the CAA.

As a result, Luxembourg underwent a significant tax reform in 2017, which created a new tax-related criminal offense — aggravated tax fraud and tax evasion (escroquerie fiscale), among others. As such, the fight against tax crime is imperative for the life insurance industry, not least due to the regulator's rising expectations.

One example is CSSF Circular 17/650 (the "Circular"), which the Financial Intelligence Unit (FIU) extended to life insurance undertakings and those providing credit/caution services. As a result, life insurance companies must implement the Circular's latest questionnaires and all relevant tax indicators (18 in total) in their internal procedures and processes, accounting for the interplay between the different regulations that apply.

Therefore, we highly recommend that life insurers' policies and procedures are up to date and their AML compliance includes a routine review of potential crime.

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Questions that may be raised

01 Are we directly supervised by the CAA?

02 Have we performed an impact assessment of the Circular on our business?

03 If yes, have we implemented the necessary mitigation measures to address all identified issues?

04 Have we properly implemented the Circular's requirements in our procedures and policies?

05 How robust is our oversight of third-party delegates and service providers?

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The insurance sector's digital transformation in Luxembourg

Much like other European markets, the insurance sector in Luxembourg has undergone a profound digital transformation in recent years. This shift is driven by the need to remain competitive, improve operational efficiency, and meet customers' evolving demands.

However, the industry faces unique challenges, primarily due to stringent regulations regarding professional secrecy, which are enshrined in Luxembourg's legal framework. These challenges shape insurance companies' approach when adopting digital technologies, particularly regarding data hosting and harnessing emerging technologies for operational enhancement.

Role of professional secrecy in Luxembourg's insurance sector

The importance of professional secrecy looms large in Luxembourg's insurance landscape, protected under Article 300 of the Law of 7 December 2015 on the insurance sector (the "Insurance Law"). This provision requires insurance companies to safeguard clients' confidential information, including personal data.

Article 300 specifically requires insurance undertakings, their employees and agents to keep confidential any information they come across in their professional activities, regardless of whether explicitly stated as confidential. This professional secrecy applies to any information related to policies, premiums or claims, and includes personal data like names, addresses and any other details that could identify individuals.

As a result, insurance companies in Luxembourg are challenged twofold when developing their digital strategies. On the one hand, companies must leverage modern technologies to improve CX and optimize business operations. While on the other, they must take meticulous care to avoid any potential confidentiality breaches due to digitalization.

This dual challenge has led to two distinct approaches within the sector.

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1. On-premises technology for policy management systems

To mitigate the risk of data breaches and maintain control over sensitive information, many insurance companies in Luxembourg opt to keep their policy management systems on-premises. This ensures that the most sensitive customer data, such as policy details and personal information, remains within the company's secure internal environment.

By storing this data locally, insurers can implement stringent security measures to minimize the risk of unauthorized access, including advanced encryption and access controls.

Additionally, Article 300 of the Insurance Law places the onus on insurers to maintain confidentiality and protect personal data, which is often easier to enforce within an on-premises infrastructure. While this approach may limit cloud solutions' scalability and flexibility features, it provides greater control over the security of the most sensitive data.

2. Cloud technology for non-sensitive systems

While the insurance sector in Luxembourg remains cautious about storing highly sensitive data in the cloud, there's greater acceptance of using cloud technology for less sensitive areas. As accounting data typically lacks personal client information, insurers are increasingly adopting cloud-based solutions for managing financial records, accounts ledgers and related documents.
Adopting cloud technology for accounting purposes aligns with Article 80 of the Insurance Law.
It addresses Luxembourg insurance companies' secure storage of documents and data, emphasizing that financial records like account ledgers can be safely stored electronically if appropriate safeguards ensure data integrity and confidentiality.
Notably, Article 80 does not explicitly prohibit cloud-based solutions if insurers ensure that third-party service providers, including cloud providers, comply with the EU and Luxembourg's Insurance Law's security standards. This allows insurers to store accounting data in the cloud both domestically and abroad, provided the necessary protections are in place.

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Time to move forward

Insurers not embarking on a digital journey face significant risks and costs. Operational inefficiencies of manual processes ramp-up costs and slow response times, causing non-innovative companies to lag behind more agile and technologically advanced competitors. Furthermore, outdated systems may leave organizations vulnerable to cyber attacks, leading to financial losses, eroded customer trust and diminished market relevance.

To succeed in their digital transformation, insurance undertakings should explore a hybrid approach that balances on-premises systems with cloud solutions. They must also strengthen their data governance policies to comply with Article 300 of the Insurance Law, GDPR and other national and European regulations.

Leveraging emerging technologies like AI, blockchain and automation will help insurers drive operational efficiency, while investing in staff training to equip the necessary skills and tools to support undertakings' digital transformation.

Because we're convinced digital transformation is key to accelerating business growth, KPMG provides tailored services to support insurers' digitalization journeys while complying with stringent regulations. Get in touch to find out how.

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Questions that may be raised

01 Which steps must we take before moving to the cloud? Is there a dedicated framework to embrace?

02 How can we ensure our digital transformation complies with Luxembourg's data protection and professional secrecy laws?

03 How can we protect sensitive customer data as we move toward more digital systems?

04 What are the consequences if we don't modernize our systems and embrace digital transformation?

05 How can we quickly upskill and motivate our multigenerational workforce?

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Elevating CX: a strategic priority for insurers in 2025

Why?

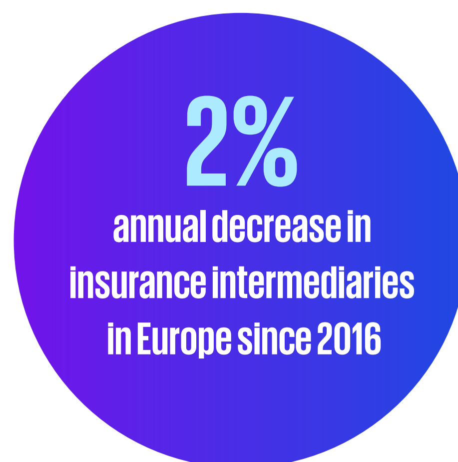
For insurers to tackle the rapidly changing landscape of the next 12 months, CX will be a critical differentiator across personal, commercial and specialty lines. Evolving competition, regulatory pressures and shifting customer expectations are pushing insurance providers to prioritize CX to build trust, enhance loyalty and achieve sustainable growth.

Distribution model digitalization boosts insurers' creativity

The role of insurance agents in Europe is profoundly transforming, driven by processes' increasing digitalization. Agents, once defined by their in-person interactions and traditional sales methods, are now hybrid professionals equipped to provide both physical and digital services. This shift is reshaping how agents engage with customers and deliver value in an increasingly competitive market.

The total number of insurance intermediaries in Europe fell by about 20% between 2016 and 2023, dropping from 1,130,000 intermediaries to 901,000[3]. When excluding countries like Romania, the Czech Republic and Luxembourg (where data was affected by administrative changes), the annual decrease is approximately 2%.

The steady decline in the number of insurance agents in traditional office settings is mainly due to digital platforms taking on more transactional and administrative functions. This is no different in Luxembourg, where insurers are increasingly relying on digital solutions to manage routine customer needs. However, the reduction in face-to-face interactions does not signify agents' diminishing importance — instead, it highlights a role shift toward providing specialized services that cannot be automated.



Other reasons for the decrease in broker and agent numbers are consolidations, regulatory pressures and an aging workforce.

Agents' digital enablement is key to remaining competitive. While markets like Germany and France still have strong physical networks through tied agents, brokers are gaining traction by increasingly adopting digital capabilities. By focusing on agents' digital training and providing them with the appropriate technological tools, insurers are steadily integrating physical agencies with digital services to create seamless customer journeys.

[3]MarshBerry, *Insurance distribution market report* – Europe, January 2024.

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This integration allows customers to start online — such as researching policies or initiating claims — and transition to in-person consultations when they require personalized guidance. As a result, agents act as a bridge between digital platforms and human interaction, ensuring that customers receive consistent, high-quality service throughout their journey.

The insurance industry's digital transformation allows agents to work more efficiently and effectively. Tools like customer relationship management (CRM) systems and predictive analytics help agents anticipate client needs and offer timely and relevant advice. While video conferencing and co-browsing tools have become indispensable for virtual consultations, enabling agents to maintain high customer engagement levels even when working remotely.

These innovations enhance productivity and position agents as key contributors to the insurer's digital strategy.

The role of the agent is evolving, but it remains indispensable

By embracing digital tools, focusing on advisory expertise and adapting to an omni-channel approach, agents can stay relevant and add greater value to CX. This demonstrates that despite technology's reshaping of the insurance landscape, human interaction remains core to delivering trust and tailored solutions.

Transforming the broker experience
It may seem more complex to set up a transformation plan for brokers, of which insurers have less direct control. However, insurers that deliver an outstanding experience will foster loyalty and encourage brokers to prioritize their products in a competitive environment.

Here are some key considerations for improving broker experience:

- Set up a **dedicated broker portal** to offer a user-friendly, secure environment with access to policy details, application tracking and commission statements. These platforms should support self-service for administrative tasks and provide resources like marketing materials and training modules.

- **Provide integration capabilities** like application programming interfaces (APIs) or other technologies that allow brokers to integrate insurer systems with their own tools for seamless policy management and communication.

- **Simplify the quoting and underwriting** process as much as possible by providing tools for real-time quoting, eligibility checks and streamlined procedures to enhance efficiency.

- **Organize tailored support** for brokers by providing a single-point connection to ensure smoother operations, including tools to analyze customer portfolios and identify cross-selling opportunities. Enhancing broker experience also involves transparent communication, faster turnaround times for claims and underwriting, and tools for comparing product performance.

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• Offer **continuous learning** opportunities via webinars, workshops and certifications to help brokers understand evolving products and regulations. Provide insights on trends to empower brokers with competitive knowledge, such as sustainable insurance options or cybersecurity coverage.

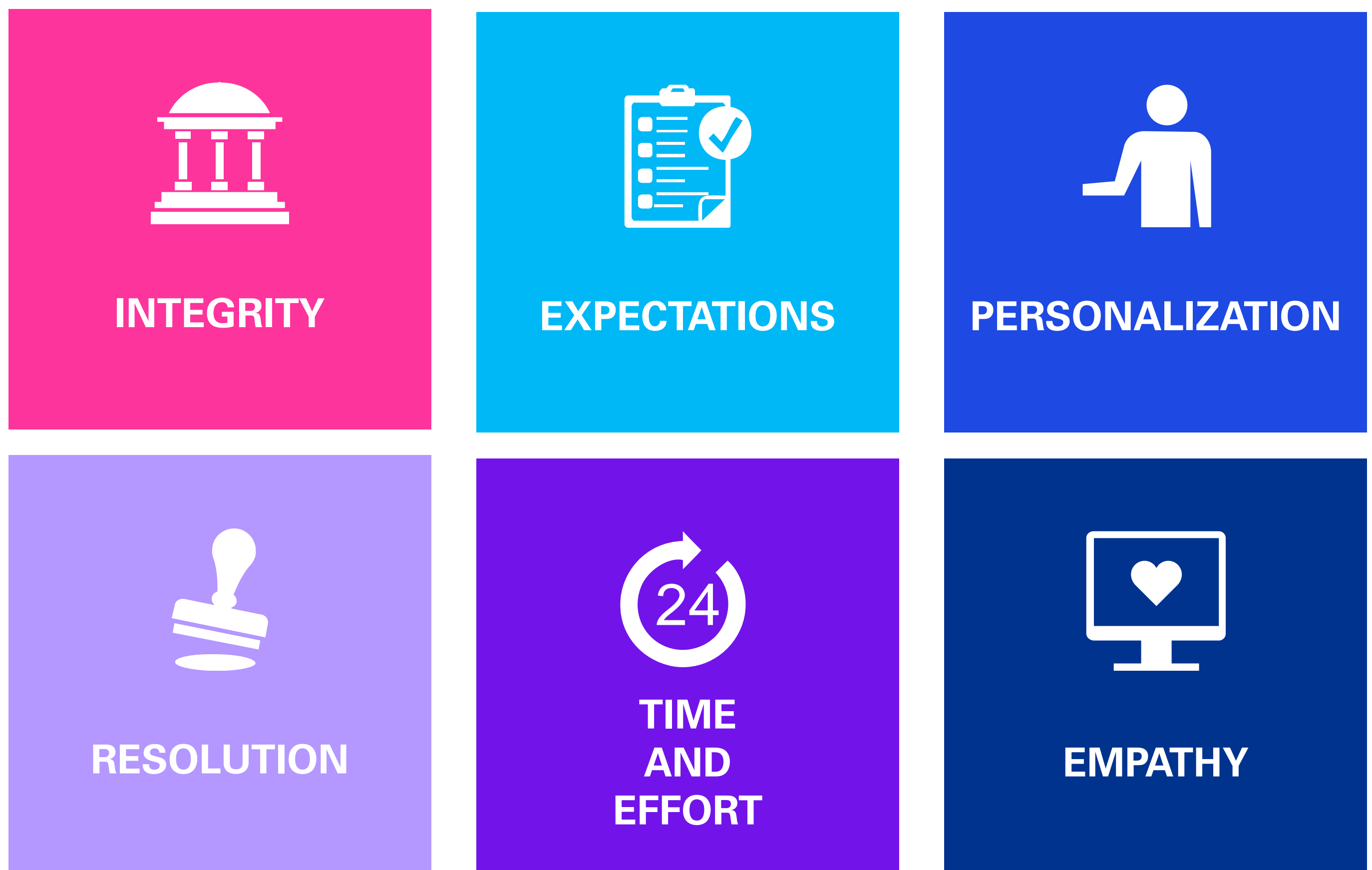
• Maintain a **regular engagement through dedicated account managers** to ensure brokers feel valued. If not already the case, consider exclusive incentives or recognition programs based on performance.

Brokers who feel supported by efficient tools, training and transparency are more likely to prioritize an insurer's products, particularly in a multi-insurer ecosystem.

What?

The six pillars of CX excellence

The essential characteristics of strong CX in the insurance sector are integrity, expectations, personalization, resolution, time and effort, and empathy. Whether resulting in increased policyholder retention, loyalty or advocacy, these six factors are the prerequisites for commercial success and drive sustainable growth.



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Integrity: the cornerstone of trust in insurance

Trust remains the bedrock of the insurance industry, but its foundations can differ across product lines. In life insurance, trust is often built on transparency, reliability and long-term security. Policyholders expect clear explanations of coverage terms, premium structures and payouts, as well as a dependable track record in honoring claims.

For property and casualty insurance, policyholders place a greater emphasis on the insurer's ability to respond promptly and effectively in times of crisis, such as natural disasters or accidents. Social responsibility and ethical practices, including sustainable underwriting and fair pricing, are increasingly important for earning trust across all customer segments.

Meeting and exceeding expectations: standing out in a crowded marketplace

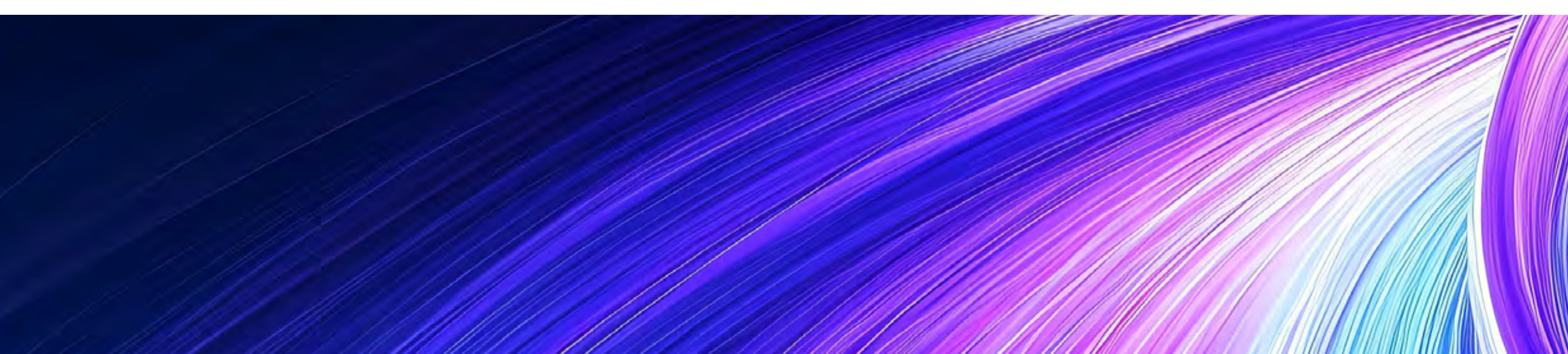
As customer expectations evolve, insurers must stay ahead of the curve to remain competitive. Today's policyholders demand seamless digital experiences, from instant policy comparisons to efficient claims filing via mobile apps. The ability to purchase coverage, update policies or access claim statuses anytime and anywhere is vital.

However, insurers must remain attuned to the needs of all customer categories. While some segments prioritize digital ease, others value personalized advice and human interaction when making complex or emotional decisions, such as choosing health or life insurance. Balancing these preferences is key to delivering differentiated experiences.

Personalization: addressing diverse insurance needs

Personalization has become a critical aspect of CX, and its application varies by insurance line. For example, high-net-worth individuals (HNWIs) often expect bespoke life or property insurance policies, with coverage tailored to unique risks, investment-linked products or legacy planning goals.

For broader retail segments, insurers must leverage data to deliver personalized experiences at scale. By analyzing lifestyle patterns, risk profiles and claims histories, insurers can offer customized policy recommendations, premium incentives for healthier behaviors, or proactive reminders to update coverage.



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Resolution: turning claims into opportunities

The claims process is a defining moment in the insurance CX journey. Whether resolving a property damage claim, addressing a medical expense reimbursement or handling a liability issue, insurers must provide fast and effective support to maintain trust.

Digital tools like AI-powered claims triaging and chatbot-driven assistance can significantly accelerate resolutions while reducing friction. For large-scale or corporate clients, specialized teams with industry expertise are often necessary to handle complex claims efficiently, transforming potential dissatisfaction into loyalty-building opportunities.

Time and effort: streamlining the insurance journey

Policyholders value simplified processes that reduce the time and effort required to manage their insurance needs. Whether purchasing a new policy, updating coverage or filing a claim, customers expect intuitive systems that minimize administrative burdens.

Automation and digital platforms play a critical role in reducing hassle and enhancing the overall experience, such as enabling instant policy renewals, automating premium payments or offering real-time claim tracking.

Empathy: understanding and addressing client needs

Empathy lies at the heart of excellent insurance CX. It involves recognizing and addressing policyholders' unique circumstances and challenges. This could include providing emotional support during crises, such as natural disasters, or tailoring solutions for clients facing financial difficulties, such as flexible payment plans or premium deferrals.

In life and health insurance, empathy often extends to understanding sensitive life events, such as the birth of a child, a critical illness, or planning for retirement. Insurers who listen actively and respond compassionately are more likely to deepen their relationships with clients and ensure long-term loyalty.

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How?

Good CX doesn't happen by accident. It must be managed.

Following the success of the 2021 Customer Experience Excellence Report, KPMG Luxembourg embarked on a new, unique study to understand how organizations are internally managing their CX: *the Customer Experience Management Maturity Assessment 2023–24* [4].

The study evaluated the five domains of CX management, or CXM.

1

CX strategy

The ability to implement, communicate and involve collaborators in the CX strategy to achieve the organization's CX goals.

2

Customer insights and understanding

The ability to collect, harness and understand customer data to turn it into actionable insights.

3

Metrics, measurement and ROI

The ability to define, measure and monitor CX metrics to inform business decisions.

4

Design, implementation and innovation

The ability to improve and develop CX initiatives and solutions to engage customers and drive business performance.

5

Culture and accountability

The ability to build a customer-centric organization and culture that inspires people to deliver on the customer promise.

[4] KPMG, *Customer Experience Management Maturity Assessment 2023-24*, 2024.

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How intentional is the delivered experience?

Although Luxembourg organizations have made strides in CX, significant improvement is still needed.

While companies often declare that client-centricity is important, the study found that proper governance is not always in place to manage it. In other words, there's a gap between their intentions and their actions.

A declaration of intent to put the policyholder at the center of the insurer's activities is insufficient; it's also necessary to articulate a CX governance that relies on a robust strategy. This involves incorporating the insurer's CX vision into a concrete and clear action plan with measurable objectives and tangible results.

AI or not AI? That's the question

The survey's interviews with Luxembourg organizations revealed uneven AI adoption across all sectors.

Most insurance participants indicated they're considering AI to streamline claims processing, improve risk assessments and automate underwriting tasks. However, using AI to directly interact with policyholders — such as via large language models (LLMs) for policy guidance or claims triaging — has yet to reach its full potential.

There's a clear opportunity for organizations to leverage AI to both improve operational efficiencies and deliver a more proactive and personalized client experience, bridging the gap between technological capability and customer expectation.

[5]KPMG, *Customer Experience Management Maturity Assessment 2023-24*, 2024.

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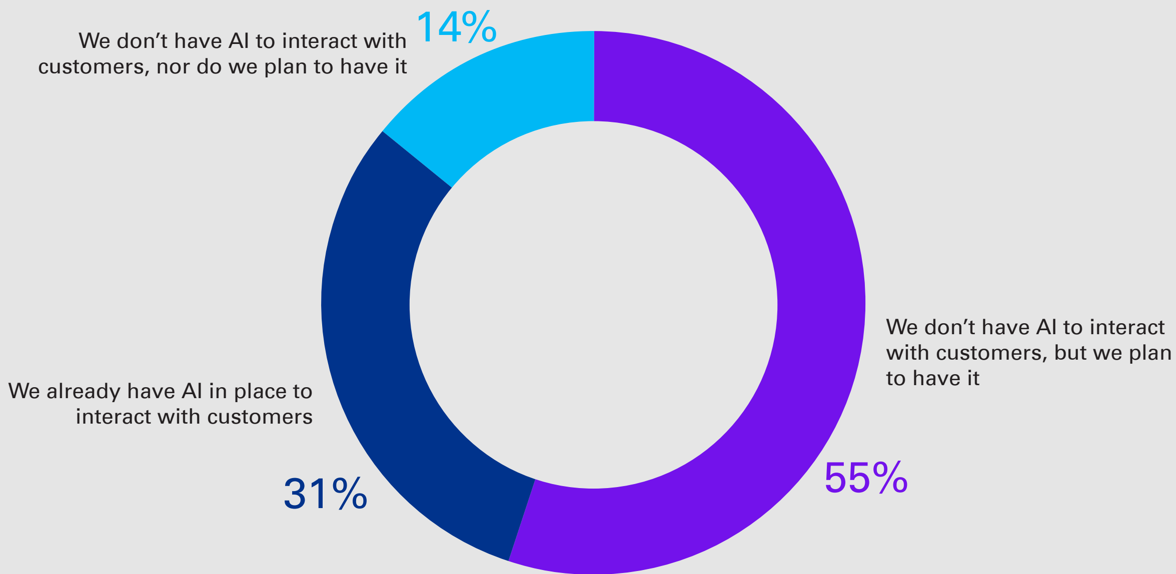
Figure 3: Do you use or do you plan to use AI to interact with your clients?[6]



Notably, 14% of the interviewees don't plan to leverage AI to interact with their clients (Figure 3).

According to KPMG's 2023 global Trust in artificial intelligence report, three in five (61%) respondents were wary about trusting AI systems, indicating there's more work to be done
for consumers and organizations alike to increase trust in AI[7].

Clients expect transparency and want to know if and why banks are using AI.

To go further...

Align your business to meet your customers' needs and create a seamless, agile and digitally enabled organization that delivers leading experiences and new levels of performance and value.

Get to know KPMG Connected Enterprise, KPMG's customer centric, agile approach to digital transformation, tailored by sector.

Contact us and request your Customer Experience Management Maturity Assessment.

[6] KPMG, *Customer Experience Management Maturity Assessment 2023-24*, 2024.

[7] KPMG, *Trust in artificial intelligence: 2023 global study on the shifting public perceptions of AI*, 2023.

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Questions that may be raised

01 How can we deliver better products and services?

02 How can we understand our customers better?

03 How can we improve our CX?

04 What governance should we implement in the organization to make an impact with delivered experience?

05 What is the return on our CRM and customer-oriented solution investments?

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New investment tax credit

On 19 December 2023, the Luxembourg Parliament approved bill n° 8276, overhauling the investment tax credit (ITC) regime that taxpayers could claim against their corporate income tax. This new regime, which took effect on 1 January 2024, increases the tax incentive for eligible projects in digital transformation or ecological and energy transition.

Background

Under the old regime, companies could benefit from two types of ITCs under Article 152bis of the Luxembourg Income Tax Law (LITL):

- A tax credit for "global investment" in specified property of:
  - Eight percent of the qualifying assets' total acquisition price up to the first €150,000
  - Two percent for the portion exceeding €150,000.
- A 13% tax credit on the "additional investment" in qualifying depreciable tangible assets in a given year.

On 13 July 2023, Bill n° 8276 was introduced to reshape the previous ITC regime for companies.

Alongside increasing the existing global ITC rate from 8% to 12%, the new regime creates a new ITC incentive for Luxembourg businesses' investments in their digital transformation or ecological and energy transition, as well as related expenses.

The new regime defines digital transformation and ecological and energy transition as follows:

Digital transformation

Achieving a process or organizational innovation by implementing and using digital technologies, such as:

- Redefining production processes to increase productivity or resource efficiency
- Implementing an innovative business model to create new value for stakeholders
- Significantly redefining the delivery of services to create new value for stakeholders
- Modernizing the company's organization to create new value for stakeholders
- Improving digital security.

Ecological and energy

Defined as "any change that reduces the environmental impact of the production or consumption of energy or the use of resources", such as:

- Improving a production process' energy efficiency, and/or material efficiency and/or significantly reducing its carbon emissions
- Enabling the self-consumption of produced energy or the storing of energy from renewable, non-fossil sources
- Reducing air pollution from production sites
- Promoting the extension of products through re-use.

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New regime overview

New ITC of 18% for investments

- In digital transformation or ecological and energy transition projects
- Includes not only investments but also operating expenses (e.g. personal expenses and third-party costs)

18%
New tax relief for investments in digital transformation or ecological and energy transition

12% of global investment

- Increases the global investment tax relief rate from 8% to 12%
- Abolishes the previous €150,000 investment tranche

Increase to
12%
for global ITC

14% for investments qualifying for Article 32bis LITL

- Covers tangible depreciable assets with special amortization
- For example, investments in assets to reduce water use; eliminate or reduce water, air or noise pollution; and reduce waste

14%
for investments qualifying for Article 32bis LITL energy transition

6% or 18% for investments in tangible depreciable assets and software

- 6% if these assets are expected to benefit from the 12% global investment tax credit
- Otherwise, the tax relief is 18%

6/18%
for investments in tangible depreciable assets and software transition

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ITC 18%: new attestation and certification process

1. Eligibility attestation

The undertaking files an eligibility application with the Ministry of Economy, which includes the following information about the project, among others:

- Name, location and description
- Objective, including a justification of how this objective will be met
- Start and end dates.

Only investments made and operating expenses incurred after the application is submitted are covered. The Ministry of Economy will grant or refuse the application within three months of receipt.

2. Annual certificate

The undertaking includes an annual certificate issued by the Ministry of Economy when filing its corporate tax return (CTR) with form 800.

Companies must request this annual certificate two months after the year-end that the new ITC was claimed, and the Ministry of Economy will issue the certificate within nine months of that year-end.

The certificate will only cover investments and operating expenses made or incurred after the eligibility application was submitted.

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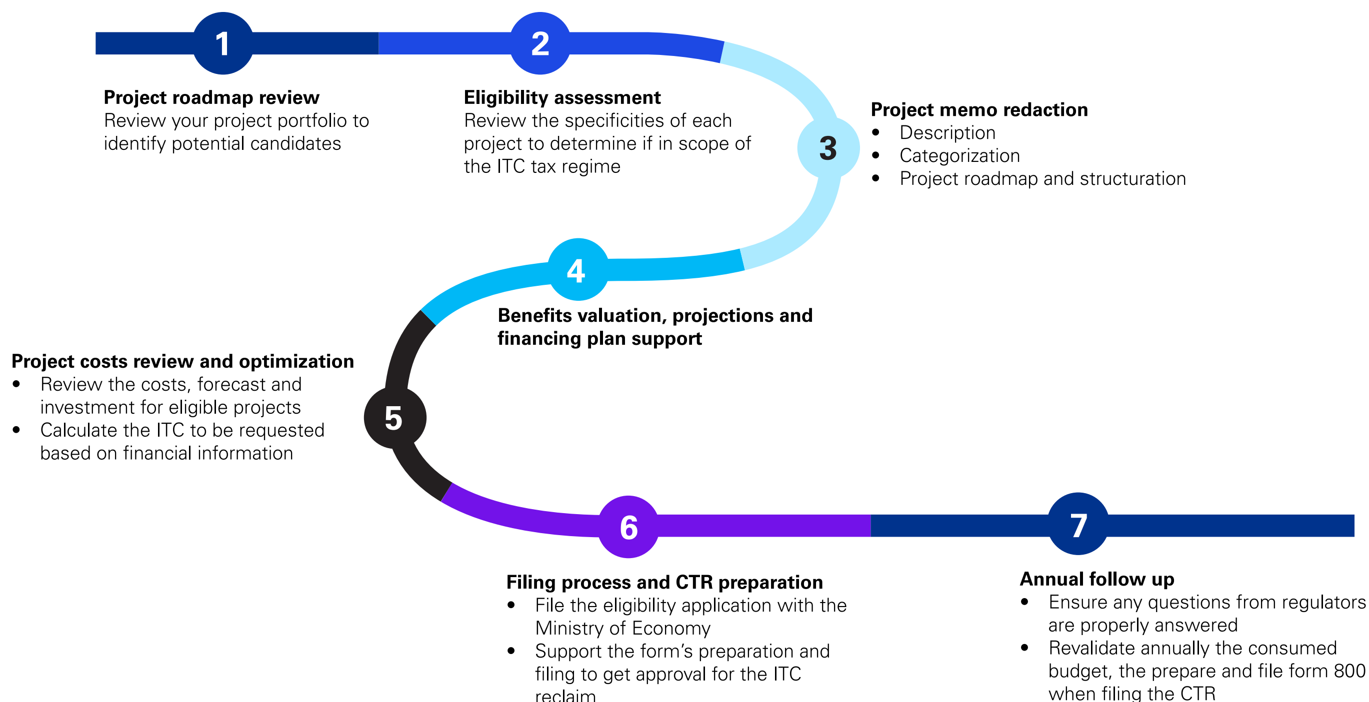
KPMG can help you identify whether your new projects can benefit from this 18% tax incentive

Our approach:



Questions that may be raised

01 Have we considered the tax incentive that we could receive if we perform a digital transformation or ecological and energy transition project?

02 Do we have existing digital or ecological and energy transition projects that are starting soon or have recently begun?

03 Do we have a project governance in place that ensures ITC eligibility from inception and that related information is gathered efficiently?

By

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Pillar 2: minimum taxation

On 22 December 2023, Luxembourg transposed Council Directive (EU) 2022/2523 (the "Pillar 2 Directive") into its domestic law (the "Pillar 2 Law").

The Pillar 2 Law introduces three new taxes to ensure that large multinational groups and large-scale domestic groups with consolidated revenues of €750 million or more (for at least two of the past four preceding years) are taxed at a minimum rate of 15% on a newly defined broad tax basis.

What's Pillar 2 about?

The Pillar 2 Global Anti-Base Erosion (GloBE)   rules form the second part of the Organization for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) initiative, a two-pronged approach to global tax reform.

The EU's Pillar 2 Directive was adopted on 14 December 2022 and transposed in Luxembourg a year later through the Pillar 2 Law.

If a jurisdiction's effective tax rate (ETR) falls below 15%, the Pillar 2 Directive's specific provisions determine the top-up tax amount for each constituent entity in this jurisdiction. Generally, this is done by applying the income inclusion rule (IRR) and the undertaxed profit rule (UTPR), which can increase the group's tax burden.

Amendments and clarifications

On 12 June 2024, draft Bill No. 8396 (the "Bill") amending the Pillar 2 Law was filed with the Luxembourg Parliament. The Bill introduced significant changes, including:

- Incorporating the OECD's February, July and December 2023 commentary on the Pillar 2 rules
- Amending existing provisions of the Pillar 2 Law
- Clarifying certain technical aspects.

As the Bill is still following the usual legislative process, it may still be adapted. Once voted, its provisions should apply for fiscal years starting on or after 31 December 2023, corresponding to the Pillar 2 Law's entry into effect date.

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Grand-ducal decrees

On 26 July 2024, the Luxembourg government published two new grand-ducal decrees (RGDs), already foreseen in the respective articles of the Pillar 2 Law and the Bill.

1. The RGD implementing Articles 16(5) and 2(7) of the Pillar 2 Law states that marketable and transferrable tax credits (as defined in the RGD) should be treated the same as qualified refundable tax credits. It's important to note that this RGD does not apply to domestic Pillar 2 calculations — such as the current ITC (Article 152bis LITL), which is not a Pillar 2 qualified refundable tax credit. Instead, it's only relevant when Luxembourg applies an IIR to another country with this ITC type.

When does Pillar 2 apply?

In most jurisdictions, including Luxembourg, the Pillar 2 Directive applies as from fiscal years starting on or after 1 January 2024 for most financial institutions.

What's required?

Typically, UPEs will need to calculate and pay any top-up tax for onshore and offshore jurisdictions with an ETR below 15%. However, in some circumstances, reporting and payment obligations may be spread across many jurisdictions. Therefore, we recommend early planning to grasp the expected impacts.

A top-up tax is required where the ETR calculated for a jurisdiction is less than the 15% minimum tax rate. A jurisdiction's ETR is equal to the sum of the adjusted covered taxes (numerator) divided by the GloBE income or loss of each constituent entity located in the jurisdiction (denominator).

Some relief is given for low-taxed entities with "substance" based on their tangible assets and payroll, and safe harbors may also be available.

In addition, many jurisdictions are expected to reform their tax incentive regimes or introduce a domestic minimum tax (DMT) of 15% to collect any top-up tax locally, rather than cede taxing rights to the parent company jurisdiction. If a country introduces a DMT, local subsidiaries and branches of foreign-owned groups will be obliged to pay the top-up tax. This is reflected in the Pillar 2 Directive, and Luxembourg is applying a qualified domestic top-up tax (QDMTT).

For both outbound and inbound groups, this means new filing obligations in the headquartered country or territory and in many other jurisdictions around the world.

What do we generally recommend?

(Re)insurers should perform an impact assessment to confirm if Pillar 2's rules apply to an entity and determine whether the group's ETR will fall below 15%, leading to a top-up tax. They should document this analysis for tax governance purposes.

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Pillar 2 workflow

1. Identification of in-scope entities
2. ETR calculation
3. Top-up tax calculation
4. Impose and allocate top-up tax
5. Filing obligation

Specific data items

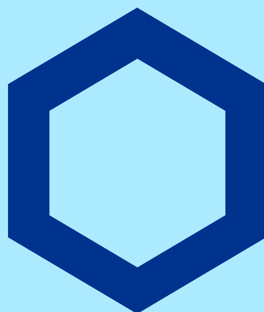
At least 150 specific data items will be needed to transition from financial accounting net income/loss to the applicable top-up tax for each entity

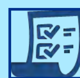
Elections

There are over 25 elections to consider when calculating GloBE income/loss and ETR. Some are one-off, others are annual, and some span five years. These elections can significantly impact the GloBE ETR and top-up tax calculation.

Tax base differences

The GloBE tax base may differ from Luxembourg's tax base, potentially impacting the ETR. Key differences include unrecognized tax incentives (e.g. the intellectual property regime or investment tax credits), timing differences, and variations in methods for utilizing tax losses, such as through deferred tax accounting.





Registration and compliance

Pillar 2 introduces various compliance obligations, including registration with the Luxembourg tax authorities, filing annual information returns detailing ETRs, and submitting top-up tax returns.
Strict deadlines apply, with penalties for late, incorrect, or incomplete filings.

Transitional safe harbors

The OECD provides a transitional Country-by-Country Reporting (CbCR) safe harbor. This is a temporary exemption from detailed ETR and top-up tax calculations, by deeming the jurisdiction's top-up tax to be zero if one of three safe harbor tests is met during the initial years of the rules' application.

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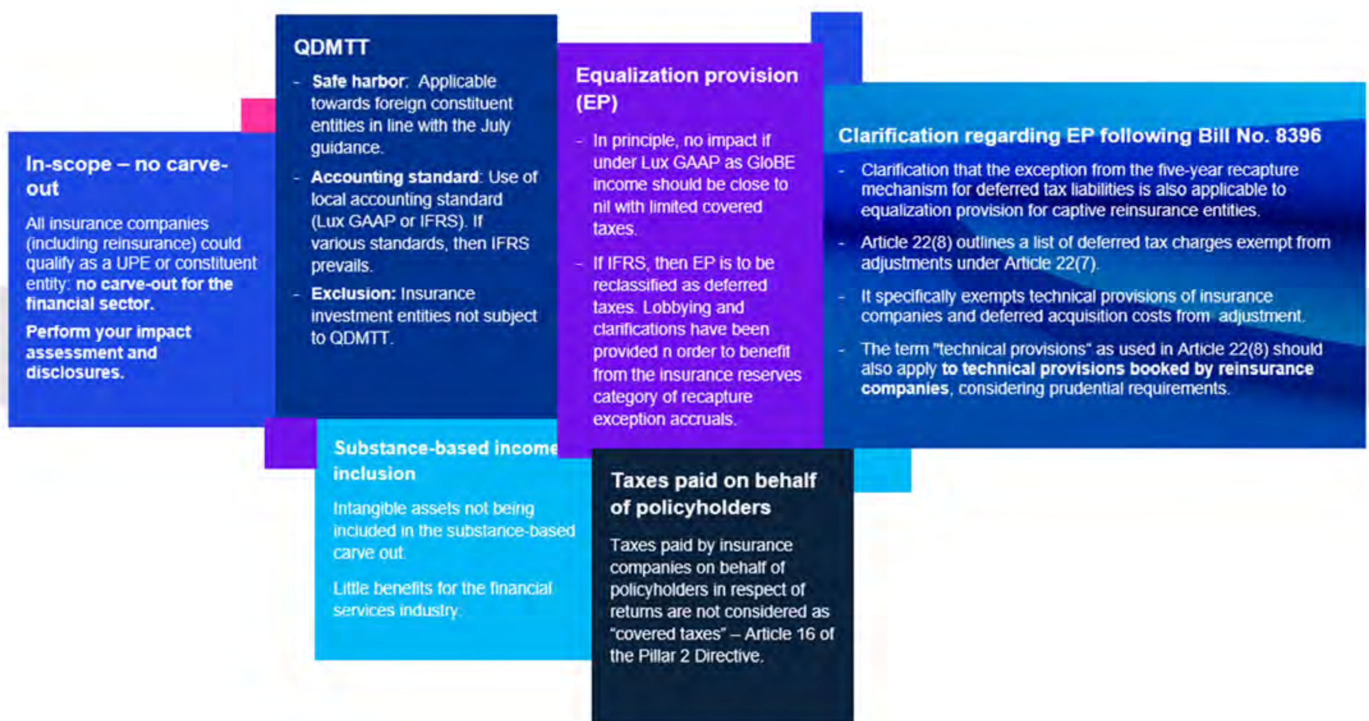
To get started, each re(insurer) should ask the following questions for each entity of a given structure:

1. Is the entity consolidated?
2. Is the entity required to consolidate from an accounting perspective, or does a local consolidation exemption apply?
3. In the case of a local accounting consolidation, is the entity an excluded entity that benefits from a carve-out? Or if a local accounting consolidation exemption applies, could the entity be brought back into Pillar 2's scope through the so-called deemed consolidation rules?
4. Has the €750 million threshold been reached?
5. Does the Pillar 2's safe harbor regime apply?
6. What is the projected ETR based on prior year financial statements or financial projections?

This analysis should also include foreign entities and not be limited to Luxembourg.

If the Pillar 2 rules apply in a given jurisdiction, the next step is to assess whether a top-up tax may apply and through which mechanism.

Please note the Pillar 2 rules may require certain disclosures in the notes to the annual accounts. In addition, in-scope entities will need to file a specific tax return with the respective local tax authorities.



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Key actions for the insurance sector

1 Review the impact of Pillar 2 rules and assess their potential implications for constituent companies

2 Ensure that transfer pricing (TP) governance is up to date, including monitoring the impact of unilateral or year-end TP adjustments.

3 Collect and track the required data, including CbCR data, and validate the "Qualified" CbCR status for the safe harbor

4 Keep management and stakeholders informed by establishing a process for regularly reviewing

What about data?

The Pillar 2 Directive requires in-scope entities to implement various procedures to source and process the necessary data in all jurisdictions where a structure operates.

Calculating the ETR under the Pillar 2 rules is more complex than the accounting ETR computation, with potentially hundreds of data points required across multiple countries. Finance, tax and other parts of the business will need to coordinate closely.

Transition and ongoing compliance costs can be significant even if a top-up tax does not apply. Planning and budgets should factor in multiple stakeholder complexities and resourcing needs to manage potential system changes over several years.

As gathering and processing this data could materially challenge unprepared organizations, we recommend insurers explore tailored digital solutions on the market. This includes KPMG's BEPS 2.0 Automation Technology (KBAT), a cloud-based tool designed to help undertakings evaluate, monitor, compile, analyze, report and comply with their Pillar 2 obligations.

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Questions that may be raised

01 How well does our current data strategy align with our overall business goals?	**02** Do we have a well-structured data management framework which supports our risk and IT architectures?
03 How often do we encounter data quality issues, and how do they impact our operations?	**04** How do we ensure data integrity and compliance across different jurisdictions?

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The future imperative: integrating AI in the insurance sector

The insurance industry is at a critical inflection point, driven by the rapid evolution of AI. From optimizing claims processing to enhancing risk assessment, AI is transforming how insurers operate, with generative AI's capabilities poised to boost efficiencies and innovation.

The traditional AI market is projected to reach US$79 billion by 2033 and generative AI is expected to grow into a US$1.3 trillion market by 2032. The insurance sector's pioneering companies recognize the importance of AI, with 72% of them already exploring the technology[8].

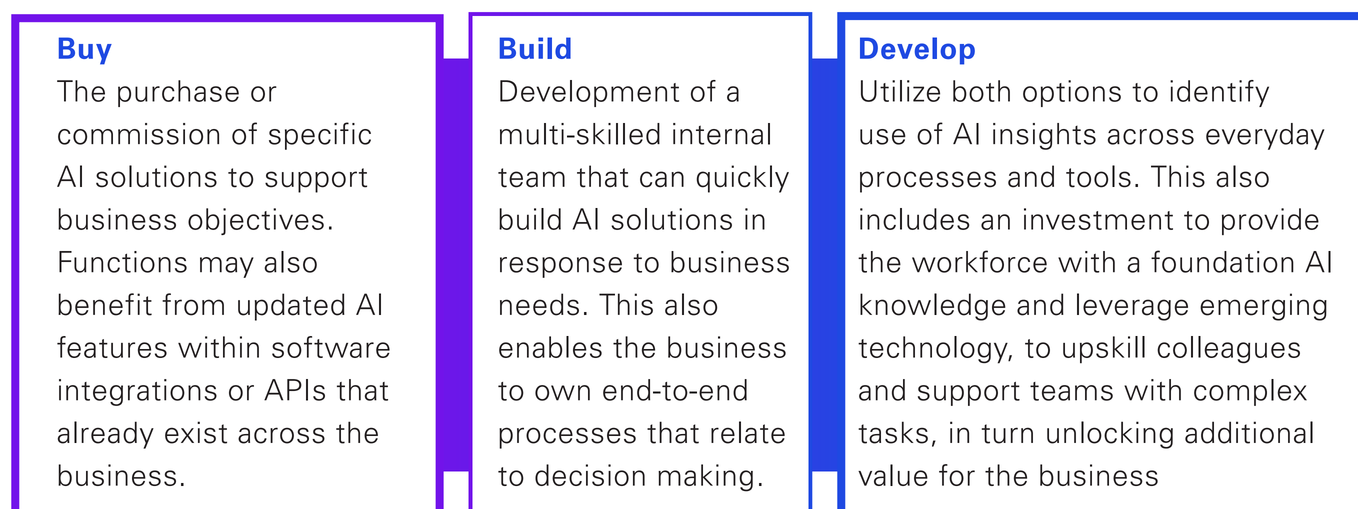
However, despite this potential, other insurers remain cautious due to concerns about data quality, trust and regulatory compliance. The critical question is: how can undertakings navigate these obstacles and maximize AI's value?

Strategic foundations for AI success

Successfully integrating AI requires a solid foundation of high-quality and accurate data, robust cloud-based infrastructure, and agile operating models to leverage information. Digital transformation provides the necessary scalability and flexibility for AI workloads, while agile methods enable faster AI adaptation. While early success is often achieved by solving specific problems with AI, scaling AI across the organization requires a wider strategic vision.

First, insurers must decide whether to buy, build or develop AI capabilities for their business (Figure 4).

Figure 4: AI options for insurers[8]



[8] KPMG, *Advancing AI across insurance*, 2024.

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With 47% of organizations globally establishing AI centers of excellence, industry leaders emphasize the importance of interdepartmental collaboration and fostering innovation[9]. By aligning AI strategies and business objectives, insurers can mitigate barriers and realize AI's potential.

Navigating AI risks

While AI offers significant opportunities and benefits, it also brings risks like bias, data breaches, regulatory compliance, and negative environmental impacts. Traditional AI systems can unintentionally discriminate and break laws by using sensitive data like gender or race. Moreover, AI models may inherit biases from historical data, underscoring the need for explainable AI to maintain transparency and fairness.

Generative AI also introduces confidentiality risks. As public AI systems can potentially violate data protection laws, insurers must mitigate this issue by training staff, using specific AI solutions and strengthening cybersecurity measures. Additionally, all AI-driven processes must comply with relevant regulations, such as the Insurance Law's professional secrecy rules, the GDPR and the EU AI Act. Establishing AI centers of excellence can foster innovation and collaboration, helping insurers effectively manage challenges throughout the journey.

Key considerations for AI integration

To successfully integrate AI into daily operations, insurers must identify strengths and possible weaknesses to apply AI mechanisms across key business segments and not just isolated processes. It's crucial to build a hybrid approach where insurers can manage risks while exploring AI's potential to deliver products and services that solve customers' needs.

As the landscape evolves rapidly, time is limited to test and reflect on AI. Insurers must remain proactive to stay competitive in the market, as the greatest risk in the AI age is failing to act at all. It's time to think big, start small and scale fast.

[9] KPMG, *Advancing AI across insurance*, 2024.

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Here are five key considerations for insurers when developing a successful AI approach:

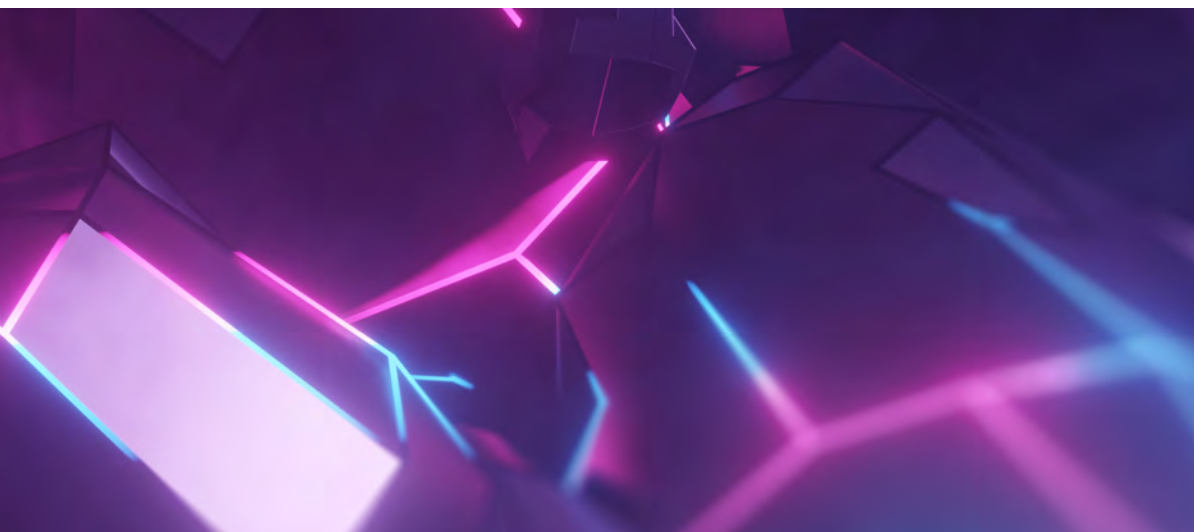
1. They must have reliable and accurate data before building AI models, because running AI models on inaccurate data creates reputational and regulatory compliance risks.
2. Leadership teams must clearly define their AI objectives, identify priority use cases and assess current capabilities using a robust AI maturity framework. A clear governance structure must also be in place to manage and monitor progress and compliance.
3. The organization's teams must have the right technology and skills to integrate AI into their current processes, otherwise the benefits of AI will not be fully harnessed and value will be lost.
4. A strong and structured testing and validation process is essential to identify challenges and issues along the way. Importantly, as outputs must be reviewed by humans, they must be kept involved in the process.
5. AI owners and leadership must ensure the organization maintains optimal and clear communication, with key stakeholders kept engaged and informed along the AI journey.

Seizing the opportunity

While the insurance industry has a huge opportunity on its hands, turning this opportunity into reality requires decisive action and a planned, systematic approach.

A solid foundation and a pragmatic mindset will enable insurance organizations to prioritize high-value use cases and align AI and business objectives. Those that successfully execute on AI can create optimized operations that improve CX and drive more profitable business.

The time to take the lead is now, and help is at hand. KPMG's maturity assessment framework can help leadership teams quickly identify core capabilities and prioritize use cases. This helps create the foundations that are essential for delivering high-quality results.



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Questions that may be raised

01 Does the organization have a clearly defined AI strategy, and how is it aligned with our overall business goals?	**02** Have we identified specific areas in the value chain where AI can provide the most value?
03 How do we balance AI technology integration with preserving human oversight and expertise in decision-making?	**04** What governance frameworks and ethical guidelines are in place to ensure the responsible use of AI?
05 How do we ensure AI models are explainable, transparent, and auditable for both regulatory bodies and customers?	**06** Are our data collection, management and analysis processes robust enough to support AI initiatives?
07 Do we have the necessary infrastructure and tools to effectively implement AI technologies?	**08** What measures are in place to ensure the security and privacy of sensitive customer data used in AI models?
09 How do we ensure compliance with evolving AI-related regulations in Luxembourg and the EU?	**10** What is our competitive positioning regarding AI adoption compared to our insurance industry peers?

11 Are we actively engaging with industry associations and regulators to stay informed about AI developments and standards?

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EMIR Refit and EMIR 3.0

Twelve years after the adoption of the European Market Infrastructure Regulation (EMIR), derivative trading is still undergoing significant regulatory changes. On 29 April 2024, the EMIR Refit entered into force, a large-scale update to enhance the reporting quality of over-the-counter derivatives (OTCs) and exchange-traded derivatives (ETDs).

EU financial institutions engaging in derivative trading, regardless of their clearing status and trading volume, must report every transaction execution, modification, early termination and valuation (including collateral) to an authorized trade repository no later than the next business day. Insurance companies that delegate their EMIR reporting remain responsible for the oversight.

While the market is still digesting the EMIR Refit's new reporting rules, additional changes have been introduced with the publication of a third major EMIR update in December 2024, known as EMIR 3.0.
Its major changes relate to certain entities' obligation to have active accounts at EU central clearing counterparties, alongside a focus on EMIR reporting data quality controls. The RTS regarding these requirements are expected in the first half of 2025.

The four pillars of EMIR Refit

1. **Reporting under new validation rules**

- EMIR Refit adopts a new end-to-end, XML-based reporting common to all trade repositories, containing new fields, format changes and modifications to the reported values.
- The 89 new reporting data fields bring the total number of reportable fields to 203.

2. **Mandatory delegation reporting**

- When a financial counterparty (FC) deals with a non-financial counterparty (NFC), the FC is responsible and legally liable for reporting on behalf of the NFC.

3. **Notification to the competent authority of significant reporting issues**

The financial institution must proactively notify the CAA of any:

- Significant misreporting and reporting errors
- Any obstacles that may prevent reporting within the deadline.

4. **New trade repository controls and feedback messages**

- Trade repositories must check the reports they receive and reconcile any outstanding ones.
- They must provide feedback reports concerning rejections, reconciliations and data quality.

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Data quality monitoring

This adaptation of reporting rules is accompanied by increased supervision from the regulator, making data quality monitoring essential. The CAA has announced a new targeted, results-based data quality approach that is based on new indicators and an unlimited number of annual exercises. Each entity's EMIR reporting quality will be a sign of its overall regulatory health.

Moreover, insurance companies' EMIR reporting must be consistent with other regulatory reporting and match internal reports, such as Solvency II reporting and the separate report.

EMIR 3.0 indicates that all entities engaging in derivative trading must implement appropriate due diligence procedures and arrangements to ensure the quality of the data reported. The text empowers regulators to penalize counterparties which incur repeated manifest errors in their reported data.

Therefore, insurance companies must adequately oversee the accuracy, completeness and timeliness of their reporting. This can range from sample testing to implementing control tools depending on the entity's resources, capabilities and risk appetite.

Current challenges

- The EMIR Refit's concepts of the "entity responsible for reporting", the "report submitting entity" and the "reporting counterparty" can cause confusion when delegating reporting.
- It's essential that entities perform an adequate monitoring of the trades reported on their behalf and understand feedback messages from trade repositories to improve their data quality.
- Notifications to the CAA for misreporting or reporting errors are subject to the significance calculation and require insurance companies to fully understand the new validation rules.
- As the Law of 15 March 2016 on derivative instruments establishes the CAA as the competent authority for EMIR-related topics, all their external findings can lead to fines.
- The separate report of direct insurance undertakings' approved auditors must indicate whether the board has approved a policy on derivatives financial instruments. These policies will need to be reviewed in light of the changes of EMIR Refit and EMIR 3.0.

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Questions that may be raised

01 Have we established an adapted EMIR framework that complies with EMIR Refit, EMIR 3.0. and the uplifted CAA expectations?	**02** How do we perform oversight on the accuracy, timeliness, and completeness of EMIR Refit reporting?
03 Is our EMIR reporting aligned with Solvency II and the separate report?	**04** Has a notification to the CAA become necessary, given the initial obstacles in implementing the EMIR Refit?

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FATCA and CRS

All Luxembourg financial institutions must comply with the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).

This includes "specified" insurance companies, which are entities that issue — or are obliged to make payments with respect to — a cash value insurance contract or annuity contract. For FATCA purposes, specified insurance companies must register with the Internal Revenue Service (IRS) to receive a global intermediary identification number (GIIN).

The Law of 18 June 2020 amending FATCA and CRS heightened the already heavy compliance burden, as well as reinforcing the Luxembourg tax authorities' powers to carry out audits within a 10-year time limit. Given the increased risk of falling under the tax authorities' spotlight, financial institutions must ensure they have appropriate policies, controls, procedures and IT systems in place to meet their reporting and due diligence obligations.

Luxembourg financial institutions must also maintain a so-called "Register of Actions".
This register documents their efforts to comply with their FATCA and CRS obligations, identifying all relevant roles and responsibilities within the organization and whether they delegate any FATCA and CRS tasks.

If non-compliance with FATCA and CRS due diligence procedures is uncovered, a maximum penalty of €250,000 may apply. Furthermore, if an audit finds that reportable accounts are unreported or under-reported, the organization may be penalized up to an additional 0.5% of the non-reported amount.

What do these audits look like?

As suggested by the OECD's CRS Implementation Handbook and FAQ, jurisdictions like Luxembourg have several options available when designing and implementing a compliance review procedure, including:

1. Checking that the financial institution's internal control framework complies with CRS and FATCA — the Luxembourg tax authorities began these audits in Q1 2024.
2. Reviewing a sample of accounts
3. Combining both audit methodologies of points 1 and 2 in a multi-phase compliance review using the risk-based approach.

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Questions that may be raised

01 Has the entity been accurately classified as a specified insurance company and, if so, have we undertaken all required registration steps?	**02** Do we have adequate FATCA and CRS procedures in place?
03 In case of delegation, do we have sufficiently robust monitoring processes?	**04** Have internal audits been carried out to ensure the procedures and processes are adequately followed?
05 Do we provide regular training to educate our staff on their FATCA and CRS responsibilities?	**06** Is our FATCA/CRS reporting tool efficient and adequate?

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Tax governance and substance for insurance players

With tax trends contributing to rising costs and complexity, optimal tax management is essential to add value and stand out from the crowd.

Insurance players must keep a close watch on several trends shaking up the tax landscape, including:

1. Pillar 2: European minimum taxation

- As of 1 January 2024, all Luxembourg entities of company groups with a consolidated turnover of €750 million must assess their compliance with GloBE tax rules and the 15% ETR.
- These entities must first perform an impact assessment to document good tax governance. If they are in scope, they should perform a detailed GloBE calculation to assess the ETR.

2. TP is a must-do

- Tax authorities are stepping up their TP documentation requests and audits, as well as increasing their collaboration with regulators.
- Draft Bill No. 8186's local file and master file requirements apply as from fiscal year 2024.

3. Tax fraud on the regulator's radar

- Both the CAA and Luxembourg tax authorities have clear expectations about insurers' AML and tax risk obligations.
- Insurers must prepare a detailed impact assessment as a defense paper for these authorities' audits.
- Entities must also ensure procedures for tax fraud, tax crime, FATCA, CRS and the sixth Directive on Administrative Co-operation in the field of Taxation (DAC 6) are in place and challenged by internal audit processes to avoid potential fines and public sanctions.

4. VAT challenge on company cars

- The VAT on leasing cars put at employees' disposal continues to be a complex topic, with the VAT applied depending on the employee's country of residence.
- Insurers have several ways to comply, including VAT registration or using "one-stop shops".
- They must assess the financial impact on a case-by-case basis (professional use, existing non-recovery).

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5. VAT on directors' fees

- The District Court decision on 22 November 2024 confirmed that VAT does not apply to the director's fees received by "TP" because the director does not carry out this activity independently, based on these criteria:
    1. The director does not act in their own name, on their own account and under their own responsibility.
    2. The director does not bear the economic risk of their activity.

- Following this decision, the Luxembourg tax authorities published Circular No. 781-2 on 11 December 2024, clarifying the following points:
    1. The scope of the non-application of VAT is not limited to directors of public limited companies (SA).
    2. Each director must assess if they qualify as a VAT taxable depending on the District Court's criteria, irrespective of whether the director acts as a natural person or exercises activities through a company.
    3. The regularization process regarding VAT unduly charged on director fees.
        - Directors established in Luxembourg must perform the regularization process through MyGuichet until 30 June 2025 — including for 2018 and 2019 — and refund their clients.
        - Luxembourg companies must perform the regularization process for non-Luxembourg directors.
    4. There will be no challenge to directors' input VAT recovery rights except where significant investments were incurred.
    5. The suspension of Circular No. 781 has been cancelled.

6. Permanent establishment risk

- The insurance sector has embraced post-COVID-19 working methods, such as teleworking, electronic signatures, and digital meetings.
- However, given foreign tax authorities' stricter requirements, the risk of creating a permanent establishment in Luxembourg's neighbouring countries is very high.
- Insurers need to properly assess and mitigate these risks through clear procedures and guidelines.

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Luxembourg's regulatory environment and quality of supervision are two key reasons why international insurance companies continue to choose the country as their EU base.

As tax compliance obligations are monitored by good governance, insurance companies under CAA supervision must implement the following questionnaires into their internal procedures and processes:

1 Harmonized questionnaire for life insurance companies

- This questionnaire assesses the risks of exposure to money laundering and terrorist financing (ML/TF).
- CAA Circular letter 18/9 sets out these compliance requirements.
- Insurers must review their contracts using the form provided in the Circular and answer a series of tax-related questions.

2 Mandatory questionnaire

- CAA Circular letter 18/9 sets out a mandatory questionnaire for insurers.
- With this questionnaire, insurers needed to review their more sensitive contracts before the end of 2024, and review the remaining contracts before the end of 2027.

3 Qualitative questionnaire

- CAA Circular letter 22/3 introduced a new qualitative questionnaire for life insurance companies.
- The revision allows the CAA to collect systematic, standardized and updated information to assess the compliance and effectiveness of the ML/TF system of the insurance sector's various players.
- To be completed by 18 March 2022, including tax-related questions.

In addition, the CSSF Circular 17/650 lists the latest tax indicators that (re)insurance companies must consider in their internal procedures and processes.

To implement EU Directives 2015/849 and 2018/843 on the fight against ML/TF, the CAA published Regulation No. 20/03 on 30 July 2020 amending and replacing Regulation No. 13/01 dated 23 December 2013.

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Questions that may be raised

01 Do we have an adequate tax governance in place covering all the company's tax obligations?

02 Do we have procedures in place to ensure that we comply with all tax requirements?

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Financial Data Access (FIDA) Regulation

For years, the financial industry has debated the untapped potential of sharing data securely and efficiently across institutional and platform boundaries — from new financial products to innovative business models and highly personalized services. With the Financial Data Access Regulation (FIDA), the EU is taking definitive steps toward making this vision of enhanced data accessibility a reality.

FIDA represents a pivotal milestone in the open banking journey, driving the transition to a fully open, transparent and data-driven financial landscape known as open finance.

Open banking to open finance: a natural progression

FIDA aims to simplify access to financial data and improve interoperability between financial services providers. This will promote the development of data-driven products, stimulate innovation and foster competition, ultimately benefiting both companies and customers.

Coming on the heels of the EU Data Act, FIDA is another cornerstone in the EU's broader digital strategy, creating a regulatory environment that encourages advanced data usage across the financial sector.

Scope and core requirements

Under FIDA, data holders will be obliged to provide customers with their data — immediately, free of charge, continuously, and in real-time — upon request. Crucially, they will need to offer customers a dashboard to visualize and manage their consent preferences.

FIDA's definition of data holders includes a wide range of financial entities, and its product scope encompasses:

- IBIPs (e.g. pension insurance policies)
- Non-life insurance products
- Mortgage and loan contracts
- Savings accounts
- Investments in financial instruments
- Crypto assets
- Property-related financial assets
- Creditworthiness data used for assessing loan applications.

Once customers have access to their own financial data, they can also instruct data holders to share these datasets with data users, authorized third parties like other financial institutions, insurers, or financial information service providers (FISPs). These data users can leverage this shared information to create more innovative and tailored financial solutions. Data holders will be permitted to request "cost-based compensation" from data users for facilitating data access.

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Failing to comply with FIDA's requirements can result in significant penalties, including fines of up to 2% of global turnover, public disclosures of non-compliance, and withdrawal of financial service provider authorization.

Who falls under FIDA?

Failing to comply with FIDA's requirements can result in significant penalties, including fines of up to 2% of global turnover, public disclosures of non-compliance, and withdrawal of financial service provider authorization.

The definitions of data holders and data users are broad, reflecting the heterogeneous nature of Europe's financial markets. FIDA encompasses:

- Insurance and reinsurance companies
- Insurance brokers
- Banks
- Payment and e-money institutions
- Fintech firms
- Crypto-asset service providers
- Alternative investment fund managers
- Rating agencies
- FISPs.

All these actors stand to be reshaped by FIDA's requirements.

Opportunities and challenges for all market participants

While FIDA creates new compliance demands, it also unlocks significant opportunities.

Data holders will need to invest heavily in data architecture, governance and quality to ensure that information can be delivered safely, efficiently and at the required level of granularity. However, these improvements can yield long-term benefits, allowing data holders to strengthen their internal infrastructures and potentially reposition themselves as data users — innovating with new, data-driven products and services.

For data users, FIDA opens up an unprecedented range of possibilities. With authorized access to valuable financial datasets, companies can design novel offerings, identify untapped market segments and offer highly personalized, value-added services to customers. Achieving these goals will require robust IT systems, effective governance and agile product development capabilities to process and enhance the incoming data streams.

Beyond data holders and data users, industry associations and technology providers may emerge as key facilitators, offering exchange platforms or advising on market participation.

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Recent EU-level developments and industry positions

On 4 December 2024, the Council of the European Union agreed on a position regarding the proposed framework, enabling the Council to enter negotiations with the European Parliament to finalize the legislation. These negotiations will determine FIDA's implementation timeline, with specific provisions for sectors like insurance detailed in the final text.

Once both institutions reach a consensus, the legislation will be formally adopted, published in the Official Journal of the European Union, and enter into force on a specified date.

A forward-looking approach and KPMG support

Although FIDA's specifics are still evolving, its direction is clear: open finance will become a defining feature of Europe's financial services landscape. To prepare, executives should begin assessing their current data readiness, evaluating potential new business models, and considering strategic involvement. Scenario planning now — before FIDA takes effect — can reveal emerging opportunities and highlight the internal adjustments required to capitalize on them.

In this complex environment, KPMG Luxembourg offers comprehensive guidance throughout each phase of FIDA's implementation. By combining deep industry knowledge with regulatory, legal and technological expertise, KPMG supports clients in becoming "FIDA-ready" — not only to meet compliance deadlines, but to transform these obligations into strategic advantages and long-term growth paths.

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Questions that may be raised

For data holders (data owners)	For data users
01 How does FIDA apply to the organization?	**01** What challenges and opportunities does FIDA present?
02 What data could be shared?	**02** Are all datasets digitized and can they be provided in the required quality, granularity, format, etc?
03 How will a financial data support system (FDSS) be defined and to what extent can we influence this?	**03** Is action needed regarding our IT systems and data management to ensure secure, efficient and timely data provision?
04 What does "cost-based compensation" look like for providing data to data users?	**04** Is FIDA relevant to our organization?
05 Which new business models and products will FIDA enable in our area of operations?	**05** How will an FDSS be defined and to what extent can we influence this?
06 Is our product development process set up appropriately?	**06** Does the company need authorization to act as a data user?
07 Is action needed regarding our IT systems and data management to securely receive and process data?	**07** How will we promote consent requests and new products to our customers?

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Navigating TP in the world of insurance

Background

TP in the insurance sector is increasingly critical due to evolving regulations and market dynamics. Robust and up-to-date TP documentation is essential to manage intercompany transactions effectively, as deficiencies can lead to heightened scrutiny from tax authorities and regulators.

Traditionally focused on documenting profit attribution and remuneration for head offices and permanent establishments, the Luxembourg TP landscape now demands a broader and more dynamic approach.

Developments

1. Evolving TP documentation standards and their importance

- Comprehensive TP documentation is indispensable, providing essential clarity on intragroup arrangements and profit attribution during tax and TP audits and mitigating risks like double taxation.
- Concurrently, mutual agreement procedures (MAPs) and advance pricing agreements (APAs) are also becoming increasingly common, further supporting the resolution of potential tax disputes and ensuring predictability in tax obligations.
- Proper documentation ensures that intragroup transactions adhere to arm's length principles, with entities remunerated based on the value of their functions. This level of detail is often absent in broader group TP policies or master files, necessitating more granular, jurisdiction-specific TP studies.
- The EU's post-Brexit restructuring has driven significant shifts, including relocating insurance headquarters to Luxembourg. The evolution of the group's operating mod el must be regularly reviewed and reflected in TP documentation, ensuring that profits are attributed to jurisdictions where value is created and risks are undertaken, aligning with TP regulations and regulatory expectations.

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2. TP requirements versus regulatory requirements

- Aligning TP documentation with both the CAA's regulations and OECD's TP guidelines is challenging. For example, the CAA can advise higher minimum capital requirements than those typically required from a TP perspective. These regulatory capital demands can conflict with TP principles, which prioritize aligning capital with entities' actual economic activities and value creation.
- Well-crafted TP documentation can justify capital allocations, particularly for entities performing less complex functions, such as head offices solely engaged in administrative duties.

3. Adressing TP gaps in Luxembourg's captive insurance sector

- Luxembourg's expanding captive (re)insurance market is facing a critical gap in TP practices. Captive (re)insurers are expected to demonstrate substantial economic and organizational substance comparable to traditional insurers, which includes adequate expertise, staffing and risk management capabilities.
- However, the captive sector often lacks robust economic rationale and sufficient organizational substance to support these requirements, posing significant TP risks. This discrepancy underscores the urgent need for captives to develop and document TP policies that reflect their economic activities' true nature and ensure compliance with OECD standards.

The Luxembourg insurance sector's need for precise and comprehensive TP documentation has never been more apparent. As regulatory landscapes evolve and strategic business adjustments like Brexit reshape industry frameworks, insurance companies must proactively update and maintain their TP documentation to avoid compliance risks and optimize their operational strategies.

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Questions that may be raised

01 Does the group effectively apply a TP policy and how does it monitor effective implementation?	**02** Where does key entrepreneurial risk-taking like underwriting and investment management occur within the group?
03 Are all intercompany transactions supported by legal agreements?	**04** Are intercompany prices regularly benchmarked in TP documentation, in line with Luxembourg regulations and the OECD's TP Guidelines?
05 Is capital allocated according to TP principles?	**06** Are there branches with undocumented profit allocations?
07 Has the TP model been reviewed to ensure alignment with the regulatory framework?	**08** Are recent restructurings documented in defense files and updated TP documentation?

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Solvency II Review

Adopted on 27 November 2024 and published on 8 January 2025, Directive (EU) 2025/2 (the "Solvency II Review") delivers fundamental amendments to the Solvency II framework. Member States have until January 2027 to implement these changes into national law, which aim to enhance:

- Proportionality
- Supervision quality
- Reporting standards
- Long-term guarantee measures
- Macro-prudential tools
- Sustainability risk integration
- Group and cross-border supervision.

Key amendments

1

Integration of ESG factors into the solvency capital requirement (SCR)
This change requires insurers to adjust their SCR to account for potential losses related to a broad range of ESG factors, including climate change, social responsibility and corporate governance. This amendment is the most likely to significantly impact insurance and reinsurance undertakings, requiring them to:

- Assess their capital allocation strategies to ensure they have sufficient capital to cover potential ESG-related risks. They may need to hold more capital than previously, which could impact profitability and investment strategies.
- Develop sophisticated methods to identify, measure and manage risks associated with environmental and social factors, as incorporating ESG risks into SCR requires a deeper, more systematic approach to risk management.
- Realign business models to prioritize sustainability and resilience against ESG risks. This could involve changing investment portfolios, redesigning insurance products, and adopting more sustainable practices across operations.
- Enhance reporting and transparency to demonstrate their adherence to the new amendments, which will require additional resources and potentially complex changes to existing systems.
- Demonstrate robust ESG risk management and resilience, which can enhance an insurer's reputation and make them more attractive to green investors.

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2

Proportionality principal enhancement
The proportionality principle is another significant amendment, simplifying compliance for smaller insurers. This will reduce operational costs and allow them to reassess their capital allocation while still protecting policyholder interests. Qualifying insurers will need to apply to the CAA to be classified as a small and non-complex undertaking.

Captives are automatically eligible for this classification if the following two criteria are met:

1. The insured persons and beneficiaries are either:
   - Legal entities within the same group or
   - Natural persons eligible under the group's insurance policies, provided the business covering those natural persons does not exceed 5% of technical provisions.
2. Their business does not consist of any compulsory third-party liability insurance.

3

Group and cross-border supervision
Enhanced group and cross-border supervision will apply to insurance and reinsurance undertakings operating in several countries, provided their gross written premium exceeds €15 million, and the host country deems the insurance activity vital to their national insurance market.

This new amendment enforces unified supervision standards for assessing group solvency and risk management practices. As such, regulators can identify and address systematic risks more effectively to mitigate significant threats impacting the entire group's financial stability.

4

Long-term investment support
Insurance undertakings — especially life insurance companies investing in equities eligible for the long-term equity investment (LTEI) treatment — will benefit from more favorable standard parameters, with possibly less SCR. As a result, insurers can allocate more resources to investments, enhancing their overall health and financial stability.

5

Audit requirement
The Solvency II Review requires the audit of some aspects of (re)insurance companies' Solvency and Financial Condition Reports (SFCRs) to ensure accuracy and transparency (at least the balance sheet). However, smaller and non-complex firms, along with captive insurers, may be exempt from some audit requirements as per the proportionality principle. Due to the additional burden of this audit requirement, annual reporting deadlines have been extended.

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All these amendments aim to increase the financial resilience of insurance firms, facilitate long-term stable investments, and improve supervisory coordination across borders, thereby strengthening the overall health and stability of the European insurance sector.

Questions that may be raised

01 If applicable, how would the proportionality principle affect our current operational and compliance strategies?	**02** How can we integrate sustainability and climate risk considerations into our risk management frameworks? And how can we leverage this new requirement to effectively monitor and manage climate risk, adjust pricing, optimize reinsurance and other mitigation strategies?
03 How could the revised capital requirements for LTEI impact our investment strategy, and how can we leverage this amendment to lower capital requirements while maintaining adequate solvency?	**04** What actions must we take to comply with the enhanced group and cross-border supervision requirements? Are our current systems and processes sufficient to meet the new reporting and risk assessment requirements?

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Solvency II ratio optimization

Given the current economic landscape and the increasing emphasis on ESG requirements, insurance companies are seeking ways to optimize their Solvency II ratios. Two distinct approaches can support this goal: using infrastructure investments and applying undertaking-specific parameters (USPs).

Infrastructure investments offer life insurance companies a reliable source of long-term cash flows, helping improve capital efficiency. While under the Solvency II framework, USPs allow non-life and health insurers to adjust their capital requirements more precisely to match their unique risk profiles.

1. Capital efficiency throgh infrastructure investments

Insurer investors can play a pivotal role in stimulating economic growth and development by investing in essential infrastructure assets, such as fundamental facilities serving a country or city. A good example is Luxembourg's Findel airport, as it connects Luxembourg with other countries around the globe.

The investment gap

In 2015, the Investment Plan for Europe was launched to close the investment gap left by the 2008 financial crisis. It aimed to mobilize huge investments in key sectors to stimulate the economy.

One reason for the investment gap was the scant presence of insurance companies in infrastructure investments: "As government bond yields were higher in the past, insurers did not find it necessary to invest in infrastructure to generate long term cashflows. An insurance sector body claims that with an appropriate calibration of the risk charges for infrastructure investments, insurers may increase their allocation at least by 100% over the next decade".[10]

To remove insurers' regulatory barriers regarding infrastructure entities, the Commission Delegated Regulation (EU) 2015/35 entered into force on January 2015, with infrastructure assets addressed in the Market Risk Module of the Solvency II framework.

In June 2017, the Commission Delegated Regulation (EU) 2015/35 was amended to:

- Define infrastructure assets and infrastructure entities in Article 1, Points 55a and 55b.
- Clearly distinguish between infrastructure project investments and infrastructure corporate investments, by presenting a set of distinctive regulatory criteria in Articles 164a and 164b.
- Allow for substantially lower solvency capital charges for debt and equity investment toward qualifying infrastructure assets.

[10] European Commission, *Commission Staff Working Document Impact Assessment accompanying the document Commission Delegated Regulation (EU) .../... amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates)*, 2017.

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As essential public service... or not? That's the question

As distinguishing between essential and unessential public services can prove challenging, the topic was intensely debated by the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA).

As a result of the debates, the Commission Delegated Regulation (EU) 2015/35 was amended to state that an insurer can invest in a variety of sectors to benefit from lower capital requirements, including:

- Waste management and recycling, such as hazardous waste management
- Green energy production, such as wind power or solar panels
- Social infrastructure, such as hospitals, schools, libraries and social housing
- Transportation, such as entities operating and maintaining port facilities, bridges and motorways.

Why is it important to (re)insurance companies?

- Insurer companies — particularly life insurance companies — require long-term investments (like infrastructure) to support their long-term commitments to their policyholders. The solvency capital that insurance companies must hold is determined by their liability profile as well as the risk calibrations on their investments.
- These insurance companies can better fulfill their obligations to their policyholders through safer infrastructure investments, characterized by low correlation with other volatile asset classes and stable cash flows. In addition, by investing in these types of assets, insurer investors can benefit from lower SCR.

How does the Solvency II Review impact infrastructure investments?

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To qualify as LTEI, the investments must meet all the following criteria:

- Be clearly identified and managed separately
- Have an average holding period of more than five years
- Be listed in EEA or OECD countries, or be unlisted equities of companies headquartered there
- Ensure that risk management, asset-liability management and investment policies align with the long-term holding objective
- Be well-diversified to avoid reliance on specific issuers or sectors, reducing concentrated risk exposure
- Have no participation rights.

In addition, insurers must demonstrate the ability to avoid forced selling for at least five years, even under stressed conditions.

2. UPSs in SCR standard formula

When calculating their SCR using the standard formula, insurance and reinsurance undertakings can replace the Solvency II framework's standard parameters with USPs, if approved by the regulatory authority. These USPs are tailored to better reflect insurance companies' individual risk profiles by capturing the volatility of premium and claims reserves.

By optimizing the risk calibration, USPs can help improve an insurance company's solvency ratio, potentially reducing excessive capital charges while maintaining adequate solvency. This enables insurers to allocate capital more efficiently, enhancing financial resilience and supporting strategic objectives, such as increased investment capacity or competitive pricing. Regulatory approval ensures these adjustments maintain consistency and reliability across the market.

When using USPs, undertakings must be careful not to double count catastrophe events, as they should be separately accounted for in the catastrophe modules. The SCR's formula will stay the same, as only the underlying parameters will be optimized.

Furthermore, companies may use a USP for selected lines of business, provided they justify the reasoning behind the exclusion and the standard formula's parameters are consistent for lines of business without a USP.

Notably, once the USP is approved, insurance and reinsurance undertakings can no longer switch back to the standard formula.

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Questions that may be raised

Regarding infrastructure investments	Regarding USPs
01 How do we assess and prioritize infrastructure investments that align with our long-term financial goals and risk profile?	**02** How do we ensure these infrastructure investments comply with Solvency II requirements and offer long-term, stable cash flows?
03 How can infrastructure investments help us achieve a balanced portfolio with better risk diversification and more predictable cash flows?	**04** How are we evaluating the impact of infrastructure investments on our SCR?
05 How can we address liquidity challenges associated with infrastructure investments while maximizing the benefits of high performance and low risk?	**06** How do we determine whether to apply USPs to certain business lines or stick with the standard Solvency II formula?
07 What potential impact will USPs have on our solvency ratio and overall capital efficiency?	**08** How can we ensure that applying USPs aligns with our long-term strategic objectives, including increased investment capacity or competitive pricing?
09 How do we communicate the USP adoption and the resulting solvency optimization to stakeholders, including regulators and policyholders?	

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How we can help

At KPMG Luxembourg, our clients appoint insurers and asset managers investing in global funds domiciled in Luxembourg. Over the years, we've analyzed infrastructure assets and infrastructure entities with various legal structures operating in multiple sectors.

To better assist our clients, we've created a set of exhaustive criteria to assess eligibility regarding all regulatory requirements and developments.

Our team includes:

Actuarial experts to perform all necessary calculations

- Regulatory specialists to help navigate regulatory "grey areas"
- Corporate finance specialists to analyze all financial statements and documentation
- Sector-specific experts to provide guidance on specific industry matters.

We also prepare both initial and ongoing diligence reports to assess infrastructure asset eligibility under the amended Commission Delegated Regulation (EU) 2015/35. Our goal is to help asset managers create an attractive marketing approach for their funds for insurer investors, and to help insurers benefit from lower SCR if they use the standard formula.

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On-site CAA inspections

On-site CAA inspections represent a significant part of the Luxembourg insurance sector's regulatory oversight. They evaluate insurance undertakings' governance, risk management and compliance frameworks, ensuring they align with legal and regulatory requirements.

The CAA takes a rigorous and structured approach to these inspections, which are typically initiated based on risk assessments, thematic reviews or in response to emerging issues in the sector. The inspections may focus on specific areas — such as Solvency II, governance, substance, AML and market conduct — or more generally assess the insurance undertakings' overall compliance with rules and regulations.

Throughout the inspection process, the CAA examines the adequacy of policies, procedures and practices, as well as the effectiveness of internal controls and the overall governance framework. Key outcomes include formal recommendations, required remediation plans and, ultimately, enforcement actions.

Considering the CAA's heightened focus on governance and compliance, boards of directors are expected to proactively ensure their organizations are prepared for these regulatory reviews. A firm tone from the top, combined with an effective risk culture and robust internal controls, are essential to navigate these inspections successfully. Being well-prepared for an on-site inspection not only ensures regulatory compliance but also reinforces trust and credibility with stakeholders, including the CAA.

External mock inspections are a powerful and efficient tool to enhance preparedness for the real deal. These exercises simulate a CAA on-site inspection in a controlled environment using neutral external resources. The advantage of this approach is the ability to identify and remediate potential weaknesses early on while strengthening the company's overall compliance and governance framework.

Additionally, maintaining regular interactions with the CAA is crucial to building a constructive relationship. These interactions help the organization better understand the CAA's priorities, foster mutual trust, and minimize the likelihood of unexpected issues during inspections.

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Questions that may be raised

01

Governance and oversight
- Has the board established clear responsibilities for overseeing regulatory compliance and CAA interactions?
- Is the board regularly updated on compliance matters, including findings from internal audits and risk assessments?

02

Preparation and readiness
- Is there a documented process in place for responding to CAA on-site inspections?
- Have relevant staff received training on managing regulator interactions?
- When was the last internal or external review conducted to assess compliance with CAA expectations?
- Has the company considered organizing an external mock inspection?

03

Documentation and transparency
- Are governance, risk management and compliance policies and procedures up to date, easily accessible and validated by the proper governing bodies?
- How does the organization ensure the accuracy and completeness of information provided to the CAA during inspections?

04

Compliance and remediation
- How does the organization track and address findings from previous inspections or regulatory reviews?
- Are there mechanisms in place to promptly implement corrective actions recommended by the CAA?

05

Risk management and internal controls
- Do the internal controls sufficiently identify and mitigate risks highlighted by the CAA?
- How does the organization ensure and track ongoing compliance with evolving regulatory expectations?

06

Stakeholder communication
- How does the organization communicate inspection outcomes and remediation efforts to key stakeholders, including shareholders and employees?
- Are there protocols to manage reputational risks associated with regulatory findings?

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Operating model evolution: core versus non-core

In today's evolving insurance landscape, companies are increasingly reevaluating their operating models to streamline operations and enhance efficiency. One key approach is identifying non-core activities that could be outsourced, allowing insurers to focus on their core competencies.

Commonly outsourced non-core functions in the insurance sector include claims processing, underwriting support, customer service, IT infrastructure management, payroll administration, document management, and marketing services. While essential, specialized third-party providers can often handle these activities more efficiently.

Outsourcing non-core activities offers several advantages:

- It allows insurers to reduce operational costs by leveraging the economies of scale that third-party providers can offer.
- Specialized outsourcing partners often bring advanced technological capabilities and domain expertise that insurers may lack in-house, enhancing the quality and efficiency of outsourced processes.
- It enables greater organizational agility, freeing up internal resources to focus on strategic priorities like product innovation, market expansion and customer engagement.

On the other hand, core functions, which are central to an insurer's value proposition and regulatory obligations, generally need to be performed in-house or at least closely managed. These include risk management, actuarial services, compliance and internal audit.

Deciding which functions to keep in-house or outsource involves a careful evaluation of factors like cost efficiency, technological capabilities, staff expertise and strategic objectives.

The degree to which an insurance company outsources its activities also matters. As more functions are outsourced, the operational risks increase, making robust oversight and control mechanisms even more critical. Insurers must ensure that they can effectively manage outsourced functions and meet the supervisory authorities' regulatory requirements.

Any potential outsourcing must be in line with the CAA's circulars on outsourcing, particularly regarding the Insurance Law and specifically its Article 300 on professional secrecy. These legal frameworks ensure that any outsourced function does not compromise the integrity, security and confidentiality of insurance operations.

Due to the ongoing talent shortage, many insurers in Luxembourg are struggling to maintain the necessary staff for core functions and manage rising costs. This makes finding the right balance between insourced and outsourced functions even more crucial.

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Questions that may be raised

01 What are our organization's core and non-core functions?

02 Have we assessed the costs, expertise and technology required for each function?

03 Could any non-core activities be outsourced to improve efficiency?

04 How do we ensure the effective oversight of outsourced functions, and do we have the necessary controls in place?

05 Have we identified any talent and skillset gaps, and could outsourcing help address these?

06 What are the regulatory implications of outsourcing specific functions, and how can we ensure compliance with Luxembourg's regulatory framework, particularly regarding outsourcing guidelines and the Insurance Law's Article 300 on professional secrecy?

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Talent attraction and the work culture revolution

Attracting talent in a changing world

Luxembourg has long been recognized as a leading destination for international talent, consistently ranking highly in global competitiveness indexes.

In the 2023 Global Talent Competitiveness Index (GTCI), Luxembourg maintained its 11th position out of 134 countries, reflecting its continued appeal. The country also retained its world-leading position in talent attraction, driven by its external openness and strong social protections.[11]

However, recent trends indicate emerging challenges, including a gradual shift in worker priorities and heightened competition from other high-income countries.[12] This is particularly significant given Luxembourg's reliance on international talent to support key industries, such as finance.

Increasing competition from countries investing heavily in education, digital innovation, and workforce development is reshaping the global talent market. These dynamics, coupled with evolving regulations like the EU's Pay Transparency Directive, underscore the need for businesses to adapt their recruitment and retention strategies.

Recruitment challenges

Recruitment has become an increasingly pressing issue in Luxembourg. In KPMG Luxembourg's 2023 remuneration survey, 66% of financial sector employers reported hiring difficulties, a significant hike from 45% five years earlier.

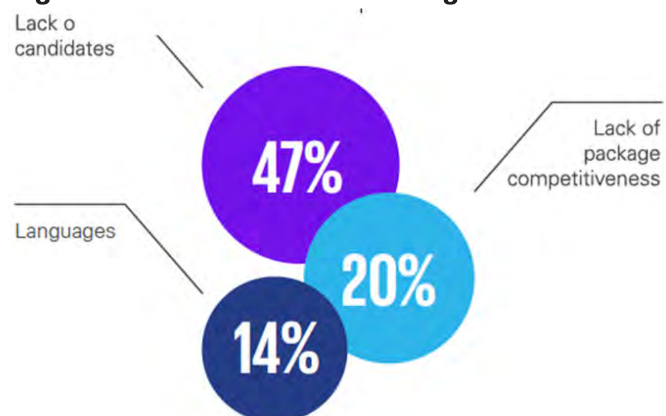
When broken down by organizational level, respondents stated their staff level was the most impacted (59%), followed by middle management (48%) and management (30%) (Figure 5).

Figure 5: Recruitment difficulties per employee level

Source: KPMG Luxembourg remuneration survey 2023

Respondents' three main stumbling blocks to hiring were a lack of qualified candidates (47%), uncompetitive salary packages (20%), and specific language requirements (14%) (Figure 6).

Figure 6: Main reasons for hiring difficulties



Source: KPMG Luxembourg remuneration survey 2023

[11]Insead, The Global Talent Competitiveness Index 2023, November 2023.
[12] EIB, "Innovation, digital and human capital," accessed 11 February 2025.

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These challenges underline the limitations of traditional recruitment methods, where matching candidates to roles has been the primary focus.

However, organizations' fast-changing skill requirements around technology and automation, coupled with a competitive labor market characterized by skills shortages, means a rethink is increasingly necessary.

Notably, soft skills are now widely in demand in the Luxembourg financial sector, directly affecting an organization's culture, atmosphere and productivity. The three skills most prized by respondents were agility (20%), critical thinking (18%) and interpersonal communication (17%).

Figure 7: Most sought-after skills

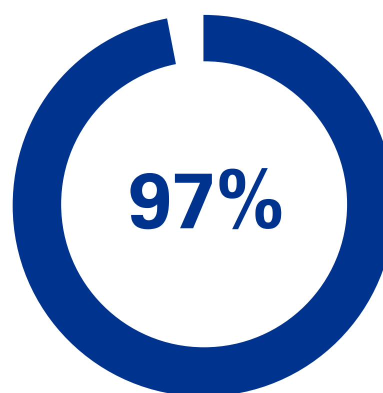
Source: KPMG Luxembourg remuneration survey 2023

In times of great change and volatility, agile employees can quickly adapt to evolving roles and business demands by rapidly learning new skills and applying innovative solutions. An agile workforce allows companies to navigate turbulence and quickly seize opportunities as they arise.

Shifting priorities: beyond financial incentives

While financial compensation remains vital for attracting talent, it's no longer enough. Jobseekers are increasingly prioritizing work-life balance, flexibility and wellbeing initiatives. According to the 2023 GTCI, 92% of workers across Europe prioritize work-life balance over salary when considering new opportunities.[13]
This shift reflects broader changes in the working world, where teleworking and work-life balance have become essential to the modern employee experience.

In Luxembourg, this trend is evident in the growing adoption of teleworking. According to KPMG Luxembourg's 2023 remuneration survey, 97% of financial sector respondents now offer remote working to their employees.



Remote work options have become key to recruitment strategies, especially for younger generations who value autonomy and flexibility. However, the rise of hybrid work arrangements presents challenges, such as maintaining productivity, team cohesion and organizational culture.

The work culture revolution

These evolving employee expectations and organizational shifts are reflected in initiatives like the EU's Pay Transparency Directive. This directive not only promotes fairness and equity in workplaces but also aligns with the broader demand for transparency, inclusivity and trust that defines modern work culture. It effectively addresses jobseekers' growing expectations, who prioritize clarity and fairness in compensation as part of their workplace values.

Diversity and inclusion (D&I) initiatives are central

[13] Insead, *The Global Talent Competitiveness Index 2023*, November 2023.

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to fostering these values, which play a critical role in shaping an inclusive and respectful company culture. By embedding these initiatives into core workplace values, organizations can gain access to untapped talent pools and cultivate environments where diverse perspectives and skillsets thrive. This alignment enhances employee satisfaction and retention while ensuring inclusivity becomes a pillar of organizational success.

The road ahead

Luxembourg's ability to attract international talent is a cornerstone of its economic success. However, shifting jobseeker priorities, intensified competition and evolving workplace dynamics present new challenges. Addressing these issues requires a comprehensive approach, encompassing workforce development, innovation in recruitment practices, and a strong focus on quality of life.

By aligning with these global trends, Luxembourg can not only overcome its current challenges but also solidify its position as a leading talent destination in an increasingly interconnected world.

Questions that may be raised

01 Is the organization struggling to attract talent?

02 Have we benchmarked our salary packages against our peers?

03 Do we offer non-financial perks in our remuneration packages, including remote working, flexible hours and wellbeing initiatives?

04 Do we have a clear policy that promotes diversity and inclusion?

05 Are we prepared for the EU's Pay Transparency Directive?

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