

Actuarial Services

Insurance companies are facing unprecedented challenges including increased regulatory reporting requirements, tighter constraints on capital, downward pressure on rates from strengthened competition and declining investment margins. Insurers need to address these issues while simultaneously effectively managing risk.

In such a complex environment, companies need advisors with practical experience of the markets they operate in, together with the knowledge and skills to deliver immediately applicable approaches and strategies, tailored to the specific needs of the company. Actuaries play a vital role in identifying, assessing and advising management on how to address the risks which they face.

As a result of fundamental changes in the global financial services industry, shareholders, regulators and the general public expect business leaders to implement a robust and transparent process to manage highly complex and increasingly interdependent risks. Market and regulatory concerns relating to reserving practice, pricing process and capital management, all in tough competition, raise new challenges for companies – challenges which are difficult to deal with lacking state-of-the-art actuarial know-how.

Capitalising upon its outstanding actuarial knowledge and experience, KPMG's Actuarial Services Group in Central & Eastern Europe ("CEE") is able to provide quality advice across the region. Our professionals combine a high level of technical knowledge, extensive practical experience and a long track record of providing both pure actuarial advisory services and multidisciplinary projects with significant actuarial components. KPMG specialists recognise and understand the issues facing the insurance markets in the region and are capable of identifying the effective measures necessary to run a successful and competitive business. In addition, we are flexible and able to respond quickly to your requirements. In a dynamic environment such as CEE a swift reaction can provide a real competitive advantage.

Actuaries who speak your language – literally and metaphorically

Solving a problem is not everything. Just as important is the ability to communicate the findings to high-level management using easily understood terminology and concepts.


KPMG's professionals are able to distil complex issues in order to deliver comprehensive and comprehensible advice in practical and non-technical terms. Our actuaries are present across the major economies in CEE, guaranteeing that our local professionals really speak the language of the local business community.

Reputation and a strong market position

Our actuaries combine a strong industry background with extensive experience of working across many actuarial disciplines. KPMG actuarial professionals play a leading role in national actuarial associations, as members of the International Actuarial Association, the worldwide organisation of national actuarial associations and the Groupe Consultatif (the umbrella organisation of European actuarial associations), and are recognised and esteemed by their peers and the industry. Our extensive experience in working with insurers and regulators across the CEE means that we can benchmark your policies and processes against your peers and best practice.

Issues and responses – how we can help

Our CEE Actuarial Services Group is among the leaders in assisting clients in achieving their goals. Our actuarial skills go beyond technical qualifications to a deep understanding of the important business issues facing our clients. Our services are wide-ranging, covering life, pensions, health and non-life insurance, reinsurance and employee benefits.



As the industry confronts the most significant regulatory changes in a generation, we can help you make the right moves

Product development and profitability

Product development cycle

Introducing a new product is a complex process, which requires effective management of often conflicting interests such as marketability and profitability, financial reporting and IT implementation. No less important is a proper understanding and management of all material risks connected with the products, particularly financial options and guarantees. These factors are particularly significant as many of the unit- and index-linked products on the market become ever more complex.

Our actuaries can provide advice, peer reviews and an independent analysis of profitability of your new products before they are launched. We can explore pricing alternatives and assess regulatory compliance.

Pricing reviews and premium risk quantification

Our services in this area range from peer review of the pricing procedures in place and recommendations for improvement to stochastic modelling of the expected future claims, based on calibration with historical data.

Utilising our wealth of market data in the key insurance markets, we are able to advise you on policyholder behaviour and price sensitivities, including the interaction of market bonus and segmentation policies, and the potential impact on your tariffs.

Portfolio statistics and analysis of portfolio experience and sources of profits

Management requires an understanding of the main drivers of profitability of major portfolios and distribution channels as well as being able to identify and intervene promptly where some parts of the business generate losses. By helping you to analyse the sources of profits emerging, and reconciling different measurement bases, we can support management's understanding of the principal factors behind the overall annual result and make it possible for them to reach the right decision.

Financial and regulatory reporting

Statutory reporting and the appointed actuary function

We can offer independent reviews of the level of provisions established by the company's actuaries, both for internal and external purposes. In addition to peer reviews of provisions, our actuaries can exercise the role of appointed actuary where required by national legislation.

Specific accounting issues under IFRS 4

IFRS 4 requires the performance of a Liability Adequacy Test (LAT), in order to demonstrate that the reported provisions are adequate in the light of the current estimates of future cash flows. The performance of a LAT has proved to be one of the most discussed aspects of the standard in CEE. We provide assistance in establishing the LAT methodology, including an assessment of the accounting implications of different approaches, and offer a peer review of any existing LAT calculations.

The accounting model under IFRS applying to rights and obligations arising from insurance contracts depends on its classification based on IFRS 4. There are also specific accounting requirements relating to the recognition of Discretionary Participation Features (DPF) of insurance and investment contracts. We can help you analyse products' structures and determine the IFRS classification (insurance, investment and service contracts or components), the options and guarantees embedded within your products, and the appropriate actuarial and accounting treatment of these features.

Embedded Value

EV is an essential measure used by a life insurer's management for assessing the value of the long-term life business. Our actuaries have a wealth of experience, both practical and theoretical, of EV calculations, including European Embedded Value (EEV) and Market Consistent Embedded Value (MCEV). We can assist companies in their development of models and internal processes to establish EV/EEV/MCEV reporting, in setting up independent input on assumptions and methodologies to complement the expertise of in-house

actuaries, and assistance in the interpretation of annual EV results and their variances due to various factors.

IFRS on insurance contracts Phase II

The introduction of Phase II of the insurance contracts standard under IFRS will represent a major change in insurance accounting and provisioning. We can provide you with an update into the development of insurance contract accounting under IFRS in order that you get a feel for the evolving standard, enabling you to assess the implications for your processes, data requirements and the impact on your financial statements.

Risk and capital management

Reserve risk quantification

Reserve risk is one of the most significant risks facing an insurance company. We offer peer reviews of technical reserves, both on a gross and net basis, and assess confidence levels using stochastic claim modelling techniques. Our professionals can identify the key sources of uncertainty affecting claims provisions.

Asset Liability Management (ALM)

Every insurer needs a robust investment strategy that grants readily available assets in the right amount and at the time when payment obligations fall due. We can review the appropriateness of your current ALM process in relation to the key exposures of the P&L and the key objectives of the company, and help you in embedding the models into your decision making process, including an aid to implement an effective investment strategy.

Effectiveness of reinsurance

Reinsurance is an important risk mitigation tool, requiring optimisation of the balance between effective risk transfer and desired profitability. We can assist you in evaluating an adequate reinsurance programme. Our actuaries are also able to help you determine the expected return on capital corresponding to different scenarios of reinsurance protection.

Risk capital management and Solvency II

Developments in Solvency II and the increasing complexity of the global insurance industry highlight the need for risk-sensitive performance measurement.

Our professionals can provide a comprehensive gap analysis to determine the state of preparation for implementing Solvency II, which will bring increasing capital requirements, enhanced governance structures and disclosure. We at KPMG will be happy to serve you in each or all of the three pillars of the new regime in designing, building, implementing and/or reviewing the models and processes that enable your enterprise to calculate the solvency compliant technical provisions, MCR and SCR using the standard formula or a (partial) internal model; to comply with the supervisory review process including ORSA; to provide the necessary reporting and disclosure.

The calculation and allocation of risk-based capital and risk-adjusted return on capital (RAROC) will become a crucial part of strategic planning. Also, beyond conventional management of insurance risk, market risk and counterparty risk, we can assist you in building the proper models for managing operational risk.

Data issues

Having relevant, sufficient, complete, consistent and accurate input data is a key prerequisite upon which any of these analyses should be grounded and is therefore mandatory for processing. We are able to assess the adequacy and suitability of your input data for state-of-the-art financial and actuarial methods and reporting and can advise you on what processes and controls are necessary in order that the quality of your data to be processed can be verified.

Actuarial process transformations

Recent developments have increased the focus on corporate governance and risk management. As a result, companies are required to make changes in their reporting processes. KPMG brings its experience in streamlining all these processes in a more efficient way and can help you to embed the relevant actuarial models into your effective risk management procedures, thus helping contribute to a sound business operation.

We are able to review and benchmark existing processes and controls as well as advising on improvements.

We concentrate not only on compliance but also on helping organisations extract

Our actuaries combine strong technical skills with the ability to communicate advice in practical, non-technical terms



the maximum value from the process by effecting real and lasting improvement in corporate governance.

Our actuaries are able to advise you in areas such as reserving process reviews, product reviews, market segmentation and overall profit improvement reviews.

Exploiting business opportunities in new markets

The insurance markets in CEE continue to be an attractive target for expansion. However, these markets remain significantly distinct from one another as well as from more mature markets. As a potential investor, you need to understand local regulations, patterns of policyholder behaviour and distribution channels.

We have guided numerous insurers through the process of entering the insurance markets in CEE. As such, we are able to offer local insights into doing business in Central & Eastern Europe.

Market investigations and benchmarking

Our advisers can help you understand the environments of the countries in which you

do business. We can offer you analysis of penetration levels in various insurance markets together with expected developments and our assessment of trends in individual lines of business.

Acquisition support

Potential acquisition targets remain elusive, and expensive, across the CEE. Nevertheless we can help you to identify opportunities, and advise you on how they can fit into your strategy for the region. Within the high pressure and time constraints of an acquisition we are able to identify the risks and rewards of a transaction rapidly and explain the implication concisely.

Greenfield projects

In some countries there are often regulatory hurdles, and we are able to assist you in evaluating whether your project would be realistic in a specific country, and estimate the project costs.

Through our strong contacts with local regulators across the region we can support you during the authorisation process, enabling you to begin underwriting as soon as possible. As part of this process we can help you with the

preparation of business plans to satisfy regulators and shareholders.

Employee benefits and share-based payments

Valuation and reporting under IAS 19 for post-employment or long-term employee benefits

Companies reporting under IFRS that offer post-employment or long-term employee benefits have to recognise, measure, and report their defined benefit obligations using actuarial techniques. We are able to design, set up, and implement the models necessary to comply with IAS 19.

Valuation and reporting under IFRS 2 for share-based payments

Companies reporting under IFRS that offer share-based payment have to recognise, measure, and report on the value of their obligation attached to their share-based payment programmes. The measurement of these obligations often needs the application of complex models that use option pricing techniques. We are able to design, set up, and implement the models necessary to comply with IFRS 2.

Please contact us to find out more about how our actuaries in Central & Eastern Europe can help you achieve your business objectives in today's challenging environment.

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