



Jul 07, 2015 11:38 +08

PwC: 64% of Insurance CEOs see increasing tax burden as a threat to their growth prospects

Date

Monday, 6 July 2015

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PwC: 64% of Insurance CEOs see increasing tax burden as a threat to their growth prospects

Singapore, 6 July 2015 -- Tax is firmly under the spotlight and in the global insurance industry, the ramifications for finance and tax teams will be felt in both a new set of business demands and an overhaul of how these functions interact and operate. However, a new report from PwC says that globally, this industry will find it difficult to cope due to the accelerating shift in market expectations, and challenges to existing business models, in a sector where operational processes are already stretched.

According to the report ‘ [Insurance 2020: Equipping your business for the global tax revolution](#)’, the reputation and well-being of companies, including insurance groups, is not just being impacted by governments, taxpayers and other stakeholders but also by external perceptions of how they manage their tax affairs.

CEOs view increasing tax burden as a threat to their growth

The challenges of managing risk and tax costs are heightened by a raft of new tax compliance demands. Key developments in place or on the near horizon include the EU’s Common Reporting Standard (CRS), the OECD’s Base Erosion and Profit Shifting (BEPS) Action Plan and US Foreign Account Tax Compliance Act (FATCA). Tax teams also face a host of local reforms – the UK’s Diverted Profits Tax, new anti-avoidance rules in Australia and new controls on related party payments in Mexico are just some of the many examples.

While some of these developments have been on the radar for some time, the operational impact of so much disruptive change in so short a period is now becoming increasingly evident. Insurance CEOs globally are clearly concerned as evidenced in PwC’s global CEO survey * in which 64% said they see the

increasing tax burden as a threat to their growth, compared to 57% two years ago.

Yip Yoke Har, Insurance Tax Leader, PwC Singapore said:

“Insurers in Singapore are definitely affected by these global tax developments. Singapore is a very open economy and the insurers operating here comprise both local and multinational insurers, and the risks they write spans far beyond Singapore’s shores.”

Tax has always been one of an insurer’s most significant expenses, comparable to payroll and claims. CFOs and CEOs have looked to their tax professionals to find ways to manage their tax liabilities, and as transactions and legislation become more complex and sophisticated, so do tax arrangements. As companies focus on maximising return on equity and managing capital under new solvency regimes, the value that can be created by tax professionals is becoming increasingly recognised and highly prized.

Stretched operational processes may find it difficult to cope

The heightened reputational and non-compliance risks mean that boards are taking a much closer and more active interest in tax policies and how the tax landscape is set to evolve. Executives increasingly expect tax teams to keep them up-to-date with tax policy developments, strategic options and potential risks.

PwC’s report points out that the challenge is not just how to adapt now, but how to develop the agility needed to deal with what looks set to be constant change within the tax environment in the years ahead. In PwC’s view, the already stretched operational processes in insurance firms may find it difficult to cope.

Yip Yoke Har, Insurance Tax Leader, PwC Singapore said:

“Given the current speed of regulatory, technological and social change, the challenge for the insurance industry globally is less about what is already happening, and more about how to anticipate what further changes could happen between now and 2020. Very few tax teams appear to have evaluated the likely future alternative scenarios, let alone made plans or put them into

implementation. In Singapore, the tax function is generally under-resourced and, without further investment, will be hard-pressed to cope with the coming changes.”

Changes on the horizon will impact skills, systems and organisations

PwC’s report outlines five priorities for tax teams to equip themselves for the future:

Develop and implement a modernised tax control framework, which incorporates the key components of governance, risk identification, monitoring, enforcement and communication

Major automation of data extraction and review processes are needed to ensure compliance and release tax professionals’ time to manage risk and advise the business. Standardised data and greater automation are critical in managing tax more efficiently

As demands on tax teams evolve, some tax operations are embedded in the business and others become increasingly automated, the skills, capabilities and approach of tax teams will need to adjust. Tax teams will spend less time on data cleaning and routine reporting and more on advising on future developments in the tax policy landscape

Tax has traditionally provided analysis and policy, which the business has then implemented. As the focus of tax moves to sales and the end-consumer, tax specialists will need to be much closer to transactional activity

The focus of tax optimisation will shift from reducing to paying an appropriate amount of tax and ensuring that current tax policies stand up to current and future scrutiny

Concluded Yip Yoke Har, Insurance Tax Leader, PwC Singapore:

“The certainties and demands that have shaped tax management over the past 30 years are being swept aside. What tax teams are required to do, how they do it, who does it and where they do it will all change as a result.

“It is vital insurers globally respond in a clear and thoughtful way to a much wider base of stakeholders than before, including not only tax authorities and governments, but also regulators, investors, non-governmental organisations (NGOs), the media and the general public.”

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Notes to Editors:

*80 Insurance CEOs in 37 countries were interviewed for PwC’s 18th Annual Global CEO Survey, ‘**A marketplace without boundaries? Responding to disruption**’. (www.pwc.com/ceosurvey)

PwC’s report, ‘[Insurance 2020: Equipping your business for the global tax revolution](#)’, is the latest in a series of viewpoints exploring mega trends that are reshaping the commercial and operating environment for insurers worldwide. The transformational developments stretch from hyper-connectivity to more customer expectations, the shifts in public attitudes to increasing cost and complexity of regulation. The central message from Insurance 2020 is that whatever organisations are doing in the short-term – be it dealing with market instability or just going about day-to-day business – they need to be looking at how to keep pace with the sweeping Social, Technological, Economic, Environmental and Political (STEEP) developments that are transforming the world.

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