PwC: Insurance CEOs see increasing tax burden as threat to their growth prospects

Hamilton, Bermuda — Insurance industry chief executives see the increasing tax burden as a threat to their growth.

According to PwC’s new 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.

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.

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.

Richard Irvine, PwC Bermuda Tax leader, comments: “The challenge for the insurance industry 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.”

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,” Mr Irvine added. “Tax teams will spend less time on data cleaning and routine reporting. Instead, they are likely to devote much more of their time to advising on future developments in the tax policy landscape, how these affect strategic plans and how to manage the tax risks within the business.”

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.

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.

PwC’s report outlines five priorities for tax teams to equip themselves for the future. You can read the full report here: [http://www.pwc.com/insurance2020taxrevolution](http://www.pwc.com/insurance2020taxrevolution)

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