

# Rethinking tax to drive more value

The strategic agenda for insurance tax leaders in the Asia-Pacific region



# Powerful forces reorder tax priorities

The agendas of tax leaders at insurance companies in the Asia-Pacific region have changed dramatically in the last several years thanks to shifting regulatory requirements, emerging macroeconomic and geopolitical trends, and ongoing pressures to simultaneously cut costs and innovate boldly. Recent EY insurance tax roundtable events in Hong Kong and Sydney demonstrated the extent of these changes and how they are reordering the strategic priorities of insurance tax leaders.

As highlighted in the following pages, the current “hot topics” of conversation are:

- Increasingly active – and digital – regulators
- The battle for new skills and talent
- The impact of evolving global tax policy
- Shifting business priorities
- Shaping the right tax strategy
- Mastering the operating model

## About EY insurance tax roundtable series

EY teams regularly convene gatherings of tax leaders from across financial services for candid and interactive discussions of their greatest challenges and most compelling opportunities. Providing global and regional updates on regulatory, technology and industry trends, these events are held in prominent markets in the Americas, Asia and Europe.

## **Increasingly active – and digital – regulators**

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There is an increasing risk that tax and revenue authorities, as well as other regulators, know more about their businesses than internal tax functions do. Many authorities are embracing digital technology rapidly and ambitiously. For example, the Australian Taxation Office has added hundreds of data scientists to its staff, far beyond what most corporate tax functions have done.

In some markets, tax authorities now ask for all of a company's tax data and are prepared to tell companies what they owe in taxes. Other authorities are using algorithms to find outliers and anomalies in tax filings and audits. Indeed, audits are becoming ongoing processes rather than specific, one-off occurrences.

As electronic filing and country-by-country reporting becomes the norm, tax authorities can gather source information quickly and create profiles of taxpayers and the industry in which they operate – creating their own benchmarks as they seek to address the “shadow” economy.

The shifting dynamic fundamentally changes the relationship between companies and regulators. It also highlights the need for tax functions to ask themselves why they are preparing certain tax reports and what benefits reports generate, rather than simply repeating what they have always done. Tax functions should not be afraid to challenge or question their own approach and evolve new methods. Tax and revenue authorities certainly aren't afraid to try new methods and embrace technology. Insurers must keep pace when it comes to digital technology, as well as understanding how tax authorities are using company data.

## **The battle for new skills and talent**

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Tax teams are coming to terms with the need for new skills and talent that go far beyond the purely technical knowledge that has been the priority in the past. Data scientists are increasingly in demand for tax organizations. Some forward-looking tax functions are also considering public relations, marketing and relationship management expertise. By adding “storytelling” skills, tax leaders can more clearly articulate the organization's values and commitment to paying their fair share of tax to all stakeholders (including customers).

These developments reflect the role tax leaders often play in managing and protecting their companies' public profiles and brands. Creating mutually beneficial dialogue with regulators is another area where nontechnical skills can add value for companies.

At the same time, tax leaders are being asked to do more with less, which places a further premium on talent. It is critical that the right people and teams are in place to support the tax function. Additionally, insurers are focused on succession planning in their tax functions and ensuring they have sufficient depth of expertise.

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Tax leaders are adjusting to the reality that authorities may know more about their businesses than they do.

## The impact of evolving global tax policy

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Tax regimes differ across individual countries in Asia. Take, for instance, value-added tax (VAT) and goods and services tax (GST); some countries have well-developed regimes, while others have no indirect taxes at all.

Nevertheless, global tax issues are affecting companies in nearly every country. For example, tax leaders across Asia are closely watching developments at both the OECD and country levels for issues related to BEPS 1.0 and 2.0, with its focus on addressing the tax challenges of the digital economy. Similarly, they are monitoring potential changes to the transfer pricing and substance rules. Other OECD-driven reforms to the international tax system are also on the radar, as are changing rules in Switzerland, Luxembourg, Bermuda and the Cayman Islands.

Evolving political landscapes in the US, UK and Europe – from trade wars to rising nationalism to Brexit – have implications for insurance companies around the world. The main impact so far has been the de-emphasis on tax minimization and a greater sensitivity to public views on corporate taxation. Indeed, the notion of requiring corporations to pay their “fair share” of taxes has become an increasingly powerful issue in political elections in Asia and other regions around the world. As many governments are frustrated in their efforts to protect their tax bases, politicization and populism remain forces to be reckoned with.

Consumption-based taxes are on the rise across Asia. In India, taxes are generally designed as GSTs, though separate state and federal taxes (like in Canada) make for an incredibly complex situation, where firms may file 1,200 or more returns annually. Hong Kong looks unlikely to introduce a VAT given its large surplus, while Malaysia is removing its newly introduced GST and replacing it with sale and services tax in a somewhat unexpected move.

## Shifting business priorities

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These global issues are changing the role tax functions play relative to the business. They also present the opportunity to raise the profile of the tax function as value-adding entities. The clearest indicator of a shift is that reducing tax bills is not necessarily the top priority at every company all the time. For instance, some insurers are focused on paying the amount of tax that’s in the best long-term interest of shareholders.

How tax functions do their work has also changed. The focus is now on data, transparency, visibility and analysis – not just making sure all the tax numbers add up. Data quality, integrity and access remain huge issues for many companies. Firms are trying to understand how much data is being used and touched by tax and whether it’s in the right form or must be adapted to be used for analysis. *See sidebar on page 5.*

The shifting priorities must be viewed in the context of ongoing cost pressures and the tendency to cut costs indiscriminately in tax functions. Without some investment in new capabilities, talent and toolsets, it will be hard for tax functions to serve as strategic advisors to the business or as the ultimate risk manager of the company.

Unfortunately, at many insurers, resources are not necessarily aligned to the more value-adding aspects of the job. For instance, planning and support for the business occurs only on an ad hoc basis. Similarly, there is often limited capacity to focus on designing and monitoring controls for risk management purposes or to serve as advisors to the business relative to tax leakage. Overall, the increased focus on compliance has led to fewer disputes and greater transparency, but also limited engagement with the business.

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The world is at the eve of a new wave of major changes to the international tax system.

Pascal Saint-Amans

Director, OECD Centre for Tax Policy and Administration

## Shaping the right tax strategy

Participants in the Asia-Pacific events recognized the need for clearly articulated tax strategies. Such strategies would focus on business engagement and value creation, while still meeting reporting and compliance obligations.

In thinking about the big-picture implications, more tax leaders are asking whether tax is best managed as a part of the finance function or whether it should be housed as a part of, or alongside, the risk management function. Another question being asked is: are CFOs or CROs best positioned to oversee tax functions? While the links to finance and accounting are obvious from a historical perspective, more tax leaders are looking at tax risks and how they align to broader risk frameworks and appetites. Similarly, there is a balance to be struck with handling filing, compliance and reporting tasks efficiently and adding value for both business stakeholders and external shareholders.

## A strategy that enables such a balance requires:

- ▶ Identifying and quantifying the benefits and value to the organization
- ▶ Clearly defining accountability, roles and responsibilities
- ▶ Determining key dependencies
- ▶ Identifying the right metrics for success
- ▶ Determining the required skills and talent for today and tomorrow

## Data: asking the right questions

Like the insurance industry as a whole, the tax function is driven by data. Its success is determined to a significant extent by access to, and quality of, data. Thus, four big questions help shape transformation or performance improvement strategies:

- 1 Do you have a data transfer strategy?
- 2 Can your data predict anomalies?
- 3 Is your data an asset?
- 4 Can you talk to your data?



## Mirror images: tax expertise adds value to insurers and policyholders

Just as tax functions are seeking to serve as strategic advisors to business stakeholders, more life insurance companies are seeking to add value for policyholders by offering tax guidance alongside policies. For instance, by timing withdrawals of policy benefits, individual taxpayers may reduce their tax payments.

For insurance companies, similar insights and the embedding of tax planning within financial advisory services can help business lines optimize their profitability and build long-term relationships with consumers.

## Mastering the tax operating model

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Defining the strategy is seen as an important first step for tax leaders to add more value to the organization, while mastering the right operating model to execute the strategy is the next step. Tax leaders will need to identify the necessary capabilities and capacity and then the optimal sourcing approach. Given the need to engage scarce talent in critical areas (e.g., data science), more tax teams are considering engagement with external providers to handle some tax processes.

Among the other strategic considerations, tax leaders must think through:

- The opportunity to standardize processes, tools and applications
- Adopting optimal location strategies (e.g., centers of excellence, shared services centers)
- Integration with other internal functions, including finance, risk and actuarial, especially relative to data sharing and standardization

## The bottom line: tax leadership in a time of change

The issues and opportunities facing insurance tax leaders and teams around the world add up to a multidimensional puzzle or an equation with many variables. Talent and culture, data and technology, cost and value – these are the factors that tax leaders must piece together if they are to raise their value contribution to the business and navigate the complex matrix of challenges they now face.



To help companies address their most important tax-related risks and opportunities, EY teams created the **Advanced Technology Tax Lab**, a multi-sector collaboration of industry, regulators and academic researchers around the globe. Part of a research collaboration with the Massachusetts Institute of Technology (MIT), the lab drives strategies that improve data and technology use in global taxation systems. Specifically, experimenting with next-generation technologies earlier in their maturity cycle to solve taxpayer problems.

### Why EY?

With insurance tax professionals in both mature and developing regions and experienced tax technicians in hundreds of countries around the world, EY teams help global insurers balance enterprise-wide tax functions with the resources needed to operate in local markets.

**Industry knowledge:** the EY organization is the only Big Four consultancy with a dedicated global tax team serving the insurance industry.

**Regulatory relationships:** EY teams have strong working relationships with tax authorities and insurance regulators around the world; in fact, many members of the EY insurance tax team formerly served as regulators and held senior positions in those authorities.

**Track record of success:** EY teams have practical experience with 100+ data and reporting transformation projects in insurance and financial services.

**Advanced technology:** the extensive, ever-growing catalog of tax applications and suite of tools and accelerators help organizations deploy the solutions they need faster and with less risk.

**Engagement with technology leaders:** EY member firms have extensive collaborations with SAP, Guidewire, Hyperion, top InsurTechs and technology leaders, though we are tool-agnostic in seeking the right technology based on client needs and objectives.

### EY Tax Technology, Analytics and Transformation Services:

- ▶ 2,600 EY professionals around the globe focused exclusively on data, analytics, reporting and tax technology – with 450 focused on insurance and banking
- ▶ 400 EY professionals around the globe focused on tax processes, tax data management, and tax reporting and analytics
- ▶ 500 data and analytics professionals dedicated to EY services
- ▶ 73 dedicated financial services tax partners from EY member firms based in the Asia-Pacific region, several of whom are luminaries in the tax transformation industry, cutting across a broad set of technology, data and operating model competencies



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