



How tax directors can seize opportunity in a time of change



Building a better
working world



Emerging themes for 2019

Across the insurance industry today, tax departments are dealing with political and regulatory uncertainty, resource constraints, sub-standard data quality and legacy technology - to name a few of the most pressing and common issues. Despite these challenges, it's also an opportune time to promote productive change. Given the timing, tax teams should focus on the following:

- ▶ Understanding the challenges and opportunities presented by transformation and innovation programs
- ▶ Seeking opportunities to improve data quality and access and to automate key processes and workflows
- ▶ Identifying how compliance with regulatory requirements can lead to business value

At our insurance tax roundtable at the Insurance Tax Conference in Chicago in November, these key themes emerged:

- ▶ Changing consumer behaviors and technological advancement are fundamentally altering the insurance business; tax teams are preparing for the long-term impacts of these changes.
- ▶ Tax leaders recognize the need for transformation, but face significant barriers in adopting advanced technology, integrating data sets and rethinking their operating models.
- ▶ The risks of managing multiple ledgers and cutting/pasting data are well understood, but barriers to getting better data are pervasive. Tax teams feel hampered with the numbers the business gives them, knowing they are often inconsistent or inaccurate.
- ▶ Automating data gathering and manipulation could help alleviate cost and resource pressures, and drive the organization to a single version of the truth.
- ▶ Standardizing data flows used by tax, finance, risk and actuarial has proven effective and valuable at some insurers.
- ▶ From Brexit and US tax reform to the EU's mandatory disclosure regime and global indirect tax controversies, the regulatory environment is evolving rapidly and is a source of great uncertainty.
- ▶ Though countries and jurisdictions are experimenting with different approaches, the trend is toward direct access to company data, faster reporting cycles and increased transparency. The day when tax authorities know more about the business than tax directors is fast approaching in some markets.

The megatrends and market drivers reshaping the industry

Changing consumer behaviors, demographic shifts, new technologies and intensifying regulations are fundamentally altering the insurance business. Millennials don't view the need for or value of insurance in the same way as previous generations. Their decreased interest in owning cars and homes - and thus the responsibility of insuring them - is also an ominous sign for the future of the industry.

At the same time, the rise of sensors connected to the Internet of Things (IoT) offer great promise to insurers seeking to price more accurately and offer next-generation products, including so-called "pay as you drive" and "episodic" policies. Consider how connected cars and smart homes generate massive quantities of data, but change the very risks that insurance policies are designed to protect. Commercial and life insurers would also benefit greatly from clearer real-time insights into risks provided by connected and/or wearable technology.

Machine learning, artificial intelligence and distributed-ledger technologies may be the key for insurers to manage the massive new data streams that will revolutionize the industry. What's becoming clearer is how "digital" transformations are not about any one specific technology advancement or systems upgrade, but rather a combination of technology-enabled and data-driven innovations that will impact the business from end to end.

Based on our engagements with global carriers of all types and sizes, around the world and in all the industry sub-sectors, we recommend that insurers focus on three key areas:

1. Optimize current business models
2. Innovate around new customers, products and channels
3. Continually review existing portfolios



Impacts on tax: tomorrow matters today

Tax leaders are tracking these megatrends and recognize the need for transformation. Certainly, the broader market drivers impact tax organizations; for instance, tax operating models need updating in response to the common mandate from the business to “do more with less”. More effective use of technology, data and automation may hold the key. The steps tax leaders take today will help determine their success tomorrow, even if each step forward on the transformation path must generate incremental value.

In evaluating technology, many insurers face the “buy vs. build” conundrum. Tax leaders, as well as their colleagues across finance, recognize the transformative power of the latest technology, but it’s unclear whether new platforms can connect with legacy systems or offer the customization to handle unique workflows and processes of individual companies.

And of course, new technology won’t solve the problem of inaccessible data that’s hidden within in the business, thanks to non-standard technology or unclear organizational reporting lines. Experienced tax leaders understand that the more they look for relevant tax data, the more they find. Too many expenses are still captured in non-standardized ways. Shadow tax and finance groups still exist at far too many insurers.

Then there is the bigger strategic question of automation and sourcing. One way to add value is to focus human resources on high-value analytical tasks, rather than on data gathering and the dreaded (not to mention time-consuming) high-risk task of cutting and pasting data from different sources into multiple ledgers. However, enhanced toolsets and higher standards for data quality and access are necessary to automate it. See box below.

“Globalization and digitization are forcing insurers to choose between evolution or revolution in all parts of the business. Within tax, technology and talent top the agenda.”

Scott Guasta
EY Americas Insurance Tax Leader

When it comes to the organizational model, some insurers have had success by integrating their finance, risk and actuarial teams. One important result has been increased data sharing among these groups - a necessary step given the imminence of standards such as IFRS 17.

It’s worth noting that tax leaders may feel limited in their ability to lead the organization forward in adopting advanced technology, integrating data sets and rethinking the tax operating model. For tax leaders, the questions are often about how to follow the wider changes in the business to move tax forward:

- ▶ How to connect or link into transformation-driven investments?
- ▶ How to define the tax business case for investments in technology?
- ▶ How to engage the rest of the organization in a commitment to transparency in full data sharing?

Data - four key questions:

Like the insurance business 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. That’s why the EY Insurance Tax Team recommends asking four big questions in mapping 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?



The regulatory view

From Brexit and US tax reform to the EU's mandatory disclosure regime and global indirect tax controversies, the regulatory environment continues to evolve, and is a source of great uncertainty. In some ways, tax has never had a higher profile. It's an issue in political elections around the world and is constantly in the headlines of both the business and general press. Tax reform is not just happening in the US but everywhere around the world.

Insurers' business models and organizational footprints have been designed for an increasingly redundant international tax framework. The new system of rules that has emerged post-Base Erosion and Profit Shifting (BEPS) and post-US tax reform, as well as impending digital tax reform, requires an entirely fresh look at business model design. Certainly, tax functions will have to look at their own organizational structures, as well as their tools, technology and talent.

Understanding how the trends are likely to develop is necessary to support the design of a future state model that manages cost, reduces risk and shortens what could otherwise be a painful transition period. The question for tax directors is how do you navigate your way through one set of rule changes without falling foul of another?

Top five active global business tax measures - 2018

1. R&D incentives
2. Enforcement
3. Transfer pricing
4. Other business incentives
5. Withholding taxes

“There is tremendous regulatory change underway around the world and it's striking how much of it points to greater transparency, more standardized data and faster reporting cycles – all of which will benefit the broader business and enable tax teams to add more value.”

Jeff Soar
EY Global Insurance Tax Leader



Why EY?

Nobody knows insurance tax like the EY teams across the globe. With insurance tax professionals in both mature and developing regions and experienced tax technicians in hundreds of countries around the world, we help insurers worldwide balance global, enterprise-wide tax functions with the resources needed to operate in local markets.

- ▶ **Industry knowledge:** EY is the only Big Four organization with a dedicated global tax team serving the insurance industry.
- ▶ **Regulatory relationships:** We have strong working relationships with tax authorities and insurance regulators around the world; in fact, many members of EY Insurance Tax Team formerly held senior positions in those authorities.
- ▶ **Advanced technology:** Our 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 collaboration with SAP, Guidewire, Hyperion, top InsurTechs and technology leaders, though we are tool-agnostic, always seeking the right technology based on client needs and objectives.

EY Tax Technology, Analytics and Transformation practice:

- ▶ 2,600 professionals across the globe focused exclusively on data, analytics, reporting and tax technology - with 450 focused on insurance and banking.
- ▶ 400 professionals across the globe focused on tax processes, tax data management and tax reporting/analytics.
- ▶ 500 data and analytics professionals in offshore locations dedicated to EY's practice.
- ▶ EY member firms have 30 US partners, several of whom are luminaries in the tax transformation industry, cutting across a broad set of technology, data and operating model competencies.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

©2019 EYGM Limited.
All Rights Reserved.

EYG no. 000492-19Gbl

CSG no. 1901-3017610

ED None



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com