The Tax Function in the German Insurance Industry – Where Is It Headed?

PwC‘s Study 2020

Table of Contents

1.	Introduction	4
2.	Executive Summary	6
3.	Methodology	9
4.	Taking Stock – Design of the Tax Function in the Insurance Industry	13
5.	What are the Tax Function‘s Current Challenges?	20
6.	The Outlook - Market Trends and Implications	29

1 Introduction

1. Introduction

How can a company's individually configurated tax function be classified in relation to others in the insurance industry?

What are the influencing factors with regards to the structure and size of a tax department? How is the tax department integrated in the insurance firm's governance? What significant trends and developments are being observed in the industry?

Until now it has been difficult to answer these questions as there was no specific and reliable data. It is therefore the goal of this PwC study to provide for the first time a solid and as broad as possible overview of the different structures of the tax function in the insurance industry. Current challenges will also be examined while highlighting how the tax function has changed over the past few years.

The study ends with an outlook of the current trends and implications.

2 Executive Summary

2. Executive Summary (1/2)

As one would expect the insurance industry exercises its tax functions primarily via its own tax department in Germany, which is usually embedded in the main operational business processes. It is therefore not surprising that tax aspects have become an important part of the decision making process for businesses.

The individual structure of each insurance firm‘s tax department varies according to its reach (national, international, listed on the stock exchange etc) and ranges from an average of 27 employees in the tax departments of stock exchange listed insurance firms with a German parent holding company, to an average of two to three employees at insurance firms with a more local focus and up to five risk carriers. The work usually requires certain experience and qualifications, which means that 80% of the employees are aged between 36 and 49 years.

The topic of digitalisation is omnipresent: tax departments in the insurance industry are looking hard at trying to digitalise or automate existing tax processes. Almost half of the companies we surveyed are already working on this. Two insurance firms even already have their own IT professionals in their tax departments.

Governance requirements regarding tax have greatly increased in recent years. Having a tax CMS has therefore become a market standard for the insurance industry. At the vast majority of firms we surveyed, a tax CMS has either been certified, implemented or is in the first phase. Only 11% of the insurance firms we surveyed said that they currently have no tax CMS in place, or planning for one has not yet begun.

2. Executive Summary (2/2)

A new trend may be developing in the area of tax transparency. Independently of existing regulatory obligations, four insurance firms in Germany have published a so-called tax transparency report. Three further firms also intend to voluntarily publish such a report in future. It remains to be seen if more (non-capital market oriented) insurers follow and a tax transparency report becomes part of the individual tax strategy for individual firms across the market.

In order to anticipate upcoming changes in the years to come some insurers are developing a company-specific target of what their tax department should look like. This includes in particular the establishment of a digital roadmap in order to focus on driving the digitalisation and automation of processes.

It is expected that tax departments will remain subject to a process of change. The increase in the diversity and complexity of tax work that needs to be carried out requires clear focus and the targeted development of specialist knowledge.

3 Methodology

3. Methodology (1/3)

The focus of this study is on insurance firms and groups located in Germany and is intended to provide an overview of the organisation of the tax function. In this study the term ‘tax function‘ should be considered synonymous with the term ‘tax department‘, even if a distinction is made in practice. A tax function includes many different tax tasks in a business and is therefore functional in nature; the term ‘tax department‘ on the other hand refers only to the organisational entity.

3. Methodology (2/3)

Procedure

The information for this study was obtained from insurance firms via an online questionnaire and then subjected to an aggregated evaluation. In order to examine how the tax function at German insurance firms is structured and what challenges they face the study included closed as well as open questions. This allows for an analysis in the form of quantitative and qualitative data comparison and evaluation.

The questionnaire asked about the following nine topics:

- General information about the insurance firm
- Size and key figures of the insurance group
- Tasks and responsibilities within the tax department
- Resources: (full-time) employees
- Tax audits
- Governance
- Digitalisation of tax
- Current challenges for the tax function

3. Methodology (3/3)

Data Basis

The experiences of around 100 insurance firms and groups currently active in Germany have contributed to this study. The participants therefore adequately represent the market average with regards to the individual insurance lines of damage / accident insurance[1], life insurance[2] and health insurance[3] as well as re-insurance[4].

In addition more than half of the parent companies of the participants in the study have the legal form of a mutual. Around a third companies are listed on the stock exchange. Public insurance companies are also represented. The group parent company of around 85% of the participating insurance groups is headquartered in Germany.[5]

1 Approx. 38% of the participants are in the damage und accident insurance sector. The Association of the German Insurance Industry (Gesamtverband der Deutschen Versicherungswirtschaft e.V. or GDV) collects a share of around 35% (based on the number of insurance companies) of the publication of the statistical pocketbook GDV, Statistical Pocket Book of the Insurance Industry 2019, Table 1, available at: www.gdv.de/de/zahlen-und-fakten/publikationen/statistisches-taschenbuch

2 Life insurance firms make up around 13% of the participants in the study and are therefore also adequately represented. According to a study by the GDV health insurers, based on the number of insurance firms on the market as a whole, make up approx. 16% of all risk carriers; GDV, Statistical Pocket Book of the Insurance Industry 2019, Table 1, available at: www.gdv.de/de/zahlen-und-fakten/publikationen/statistisches-taschenbuch

3 Health insurance companies make up around 14% of the study participants and are therefore well represented. According to a survey by the GDV, health insurance companies, based on the number of insurance firms on the market as a whole, make up approx. 9% of all risk carriers; GDV, Statistical Pocket Book of the Insurance Industry 2019, Table 1, available at: www.gdv.de/de/zahlen-und-fakten/publikationen/statistisches-taschenbuch

4 Based on the number of insurance firms, see GDV, Statistical Pocket Book of the Insurance Industry 2019, Tabel 1, available at: www.gdv.de/de/zahlen-und-fakten/publikationen/statistisches-taschenbuch

5 This is also representative of the German insurance market as a whole. According to statistics from the GDV, German primary insurers with foreign majority owners only have a market share of 15.9%; GDV, Statistical Pocket Book of the Insurance Industry 2019, Table 19, available at: www.gdv.de/de/zahlen-und-fakten/publikationen/statistisches-taschenbuch

4

Taking Stock -
The Design of the Tax Function in the Insurance Industry

4. Taking Stock – The Design of the Tax Function in the Insurance Industry (1/6)

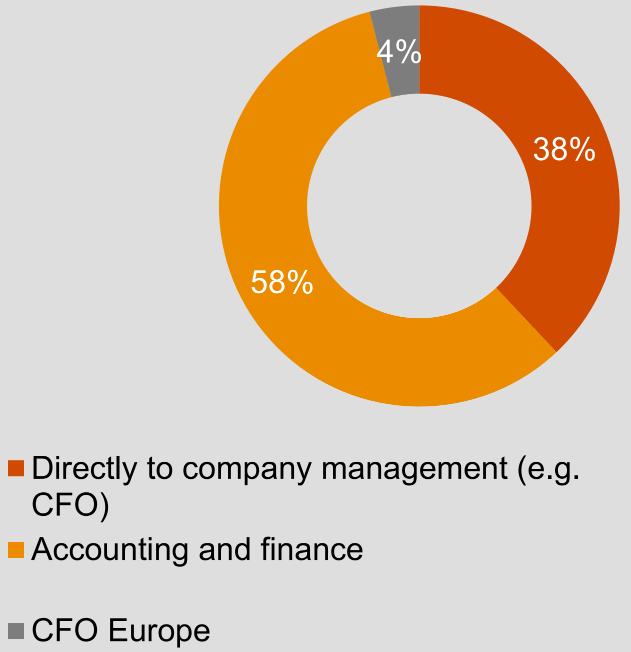
Structure of the Tax Function

The organisational integration of the tax function in the company hierarchy influences its perception within the group. Of the insurance firms surveyed, 85.2% have their own tax department in Germany For the 14.8 % which do not have their own tax department, the responsibility for tax matters remains in Germany and is not handed over to a tax department abroad, even for insurance groups with international operations. In this case, the responsibility lies mainly with accounting and finance.

This makes sense as tax connections are very local and it is vital to have the relevant people on-site who are familiar with local regulation.

At the majority of insurance firms (59.3 %) the domestic tax department is an independent department connected to accounting and finance. Around 37 % of the insurance firms surveyed are organised with a direct reporting line to management (e.g. CFO). Only 3.7 % of participants reported that the tax department reports directly to the CFO for Europe. By allocating the tax function to the first or second level of hierarchy it is also ensured that tax matters are given due consideration in operational decision making. Due to various global and local tax initiatives the status of the tax function has, in our experience, increased overall in recent years.

To which level of management does your tax department, or the persons responsible for tax, report?



4. Taking Stock – The Design of the Tax Function in the Insurance Industry (2/6)

Jurisdiction

What are the typical areas of activity of a tax department in the insurance industry?

As one would expect, the tasks in the tax department are characterised by activities in the areas of tax reporting and determination of current and deferred taxes as well as declaratory obligations such as preparing tax balances and tax returns. In some cases, insurance companies' tax departments are also responsible for determining and checking transfer prices, registering and paying withholding taxes and Foreign Tax Law (AStG) declarations. Apart from a few exceptions, the registration and payment of wage taxes does not come under the tax department's jurisdiction. This is usually done by the personnel department. Likewise, CRS/FATCA reporting is administrated to a large extent outside of the tax department (e.g. by product areas such as the life department).

The distribution of work in the area of tax can be done via different organisational structures – e.g. functional, specific to tax type, company related, divisional. A mix is regularly used. It has been established that for around 2/3 of the insurance firms surveyed the tax department‘s tasks are primarily organised according to company and the employees assigned to work on an individual company do so exclusively.

That there is an organisational separation of individual entities within insurance firms is not surprising as the different risk bearers are run legally independantly due to the pinciple of separation of insurance business lines.

In addition to the breakdown according to entity, there is also often a breakdown according to tax type (e.g. income tax, transport tax or operational tax) and for almost half of the insurance firms we surveyed there is also a functional breakdown of tasks (e.g. tax return, tax planning). This format makes it possible to focus on tasks related to tax planning, and allows for tax declaration tasks to be carried out effectively. With a few exceptions Shared Service Centres (SCC) or (partial) outsourcing are only occasionally used to complete or to support the tax department's work.

We were able to ascertain that none of the insurance firms surveyed have completely outsourced their tax department and its activities to an external service provider. An exception is insurance firms which due to the size of the company (in particular insurance firms with only limited market activities in Germany) do not have a tax department and have given all tax tasks to an external service provider.

4. Taking Stock – The Design of the Tax Function in the Insurance Industry (3/6)

Jurisdiction

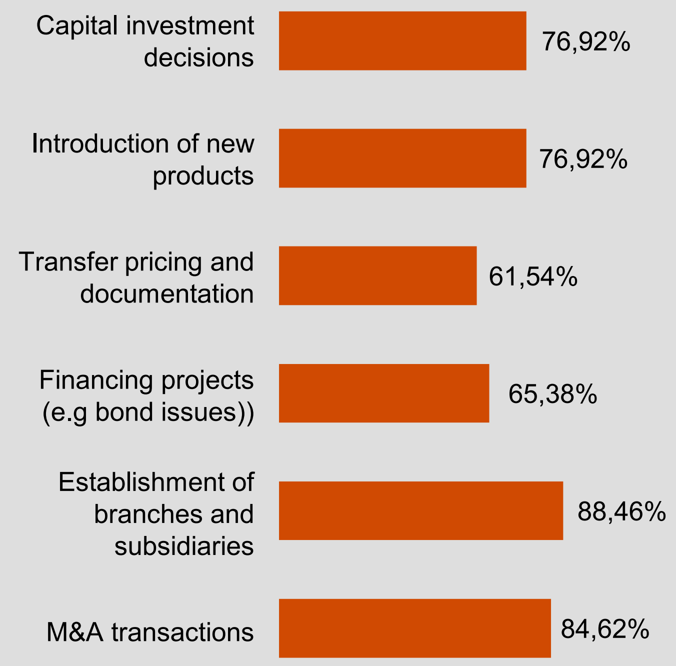
What are the typical areas of activity of a tax department in the insurance industry?

However, for the completion of certain types of work, external service providers are brought on board and some relevant tasks are outsourced to them. In these cases it tends to concern specialised topics such as compliance work connected with the insurance firms‘ holding in private equity companies, alternative funds and foreign partnerships. External service providers can also be used for legal proceedings and for tax due diligence for M&A transactions.

Some insurance firms indicated that they have already outsourced some tax processes to an internal Shared Service Centre (SSC). These are mainly heavily standardised declaration processes such as VAT and insurance tax, as well as assisting with income tax and withholding tax declarations.

We have also been able to ascertain that the tax departments of the insurance firms we surveyed are relatively intensively involved in the main operative business processes, whereas the involvement of the tax departments which report directly to the CFO seems somewhat broader. One can see intensive involvement in situations with a high level of risk such as M&A transactions, establishing branches / subsidiaries, and with capital investment decisions. A still high, but somewhat less intensive involvement than with the introduction of new products and financial projects, can be seen with transfer pricing and the relevant documentation. Here it can be noted that the topic of transfer pricing is less important, in particular for purely domestic insurance groups.

In which activities / business transactions is the tax department involved?



4. Taking Stock – The Design of the Tax Function in the Insurance Industry (4/6)

Deferred Taxes According to the HGB (Handelsgesetzbuch – German Commercial Code)

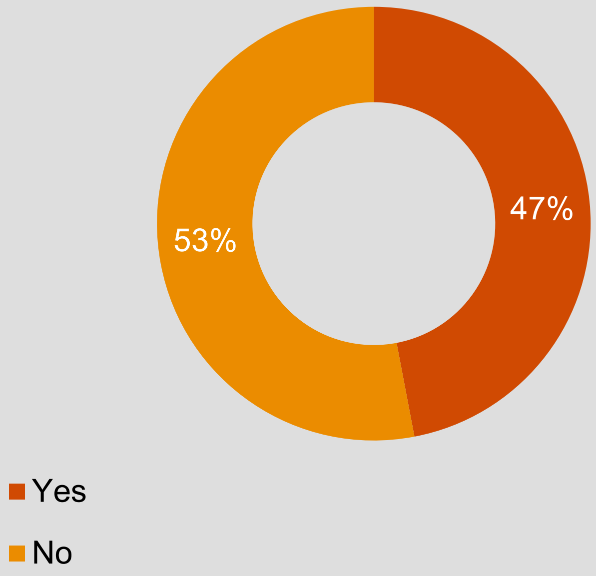
§

In connection with the tax department‘s existing areas of responsibility, just over half of respondents stated that they calculate and report deferred taxes under HGB primarily at group level.

Of the 55% of firms which generate deferred taxes, the majority are insurance firms in the legal form of a mutual.

It cannot however be concluded that companies which are legally a mutual regularly generate deferred taxes according to HGB. Equally, no connection with regards to accounting under IFRS could be established.

Are deferred taxes shown in the HGB financial statements?



4. Taking Stock – The Design of the Tax Function in the Insurance Industry (5/6)

Employee Structure

How is staffing in tax departments in the insurance industry structured?

In order to be able to carry out the tax department's tasks, the tax function must also be equipped with the relevant personnel ressources.

In Germany, staffing can vary according to the range of tasks and the size of the insurance group (national and or international reach). At capital market oriented or stock exchange listed insurance firms with a German group parent company, the tax department in Germany is staffed on average by approximately 27 employees. At those companies which generally have a high degree of internationalisation some of the employees deal with international issues relating to the overall group and group-wide tax consolidation. At insurance companies with 10 or more risk carriers in Germany, the average number of employees in the tax department is around 14.

This scale also allows the tasks within the tax department to be permanently divided among the various employees in order to gain advantages from specialisation and to monitor developments in tax law more closely.

At more locally-based insurance firms with up to five risk carriers in Germany, the average is between two and three employees in the tax department.

Around 80.8% of the insurance firms surveyed said that the average age of permanent employees lies between 36 and 49 years old. These tend to be professionals (lawyers, auditors or tax advisers) and highly qualified employees who continually study tax law. At the 15.4% of insurance firms surveyed who have an average employee age of between 50 and 60 years old it tends to be a company with one to five risk carriers with, as a rule, no more than one to two employees in the tax department. In our opinion this is not surprising; a certain amount of experience and qualifications are required in order to carry out this work. This is also reflected in the survey, as none of the insurance groups surveyed stated an age structure of employees in the tax department of up to 25 years, and only 3.8 % of the insurance groups surveyed had an average age of 26 to 35 years.

4. Taking Stock – The Design of the Tax Function in the Insurance Industry (6/6)

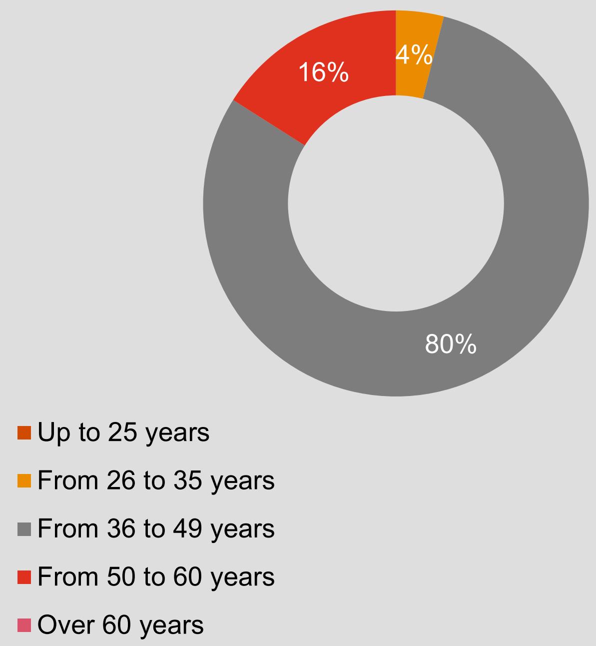
Employee Structure

How is staffing in tax departments in the insurance industry structured?

We asked insurance firms to assess which tasks are mainly carried out by the employees in the tax department. As expected we were able to note at purely locally-based insurance firms with small tax departments a clearer weighting of the classic tax functions – such as preparation of tax balance sheets, the calculation of current and deferred taxes, tax reporting, preparation of income tax returns or the supervision of tax audits.

Cumulatively, up to 80% of working time at insurance firms is spent on these functions. Furthermore, tax advising within the group also seems to enjoy great importance which is not surprising with the already noted intensive involvement of the tax department in key operational business processes.

Age structure of employees in the tax department: please provide an estimate of the average age of the permanent employees in the tax department.




5
What are the Tax Function's Current Challenges?

5. What are the Tax Function's Current Challenges? (1/8)

In recent years the challenges for the tax function from the point of view of the participating firms has considerably changed. Around 78% of the insurance firms surveyed said that the tasks and the area of responsibility have changed significantly in the last 10 years. Previously, tax calculation and declaration activities were the main focus; today, tax personnel in insurance firms are increasingly confronted with new or more detailled reporting tasks, a constantly faster and faster changing tax and regulatory environment as well as constant pressure to increase efficiency.

Whilst previously company management wanted to see tax structuring and optimisation efforts, in the year 2020 digitalisation and automation of tax processs and therefore even greater involvement in business processes is in demand. Increasingly, it is not just tax knowledge but also process-related know-how as well as IT expertise which is crucial.

5. What are the Tax Function's Current Challenges? (2/8)

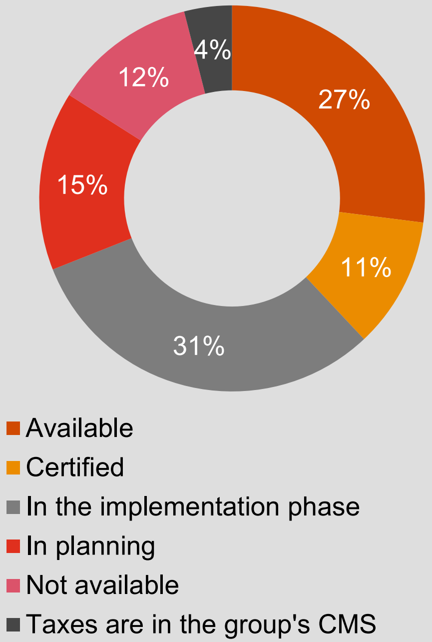
Governance (Tax CMS)

It is therefore not surprising that half of all insurance companies now have a documented tax strategy that fundamentally defines the individual company's tax framework. In this context it is important to emphasise that only around 11% of the insurance firms surveyed do not yet have a so-called Tax Compliance Management System (Tax CMS). At the vast majority of participating firms a Tax CMS has either been certified (11%), implemented (25.9%) or is in the implementation phase (29.6%) or is at least firmly in planning (18.5.%).

Of the firms which have already implemented a Tax CMS around 40% had one in or before 2017 and 60% in 2018 or later.

For the insurers which are currently in the planning or implementation phase of a Tax CMS, 80% of those surveyed expect to have closed a contract latest in 2020.

What is the status of the implementation of your Tax Compliance Management System (Tax CMS)?



5. What are the Tax Function‘s Current Challenges? (3/8)

Governance (Tax CMS)

Certification of the adequacy and / or effectiveness according to the IDW PS 980 auditing standard has so far only been carried out or is in planning by just under 10% of the insurance companies we surveyed.

Such a certification has up to now only taken place almost exclusively at larger insurance groups. None of the firms surveyed have yet carried out an effectiveness review. Consequently, it can be stated that the existence of a Tax CMS can now be described as a market standard in the insurance industry.

However, a comprehensive certification according to IDW PS 980 has not (yet) been achieved. Under certain circumstances, the number of companies with certification could increase, as currently approx. 48% are in the implementation or planning phase for a Tax CMS and may also consider or have certification carried out after its introduction.

It remains therefore to be seen if in future further companies will aim for certification and what intensity of checks will prevail (concept / appropriateness / effectiveness testing).

.

> “
> **In the insurance industry having a Tax CMS has become a market standard.**

5. What are the Tax Function‘s Current Challenges? (4/8)

Digitalisation Efforts

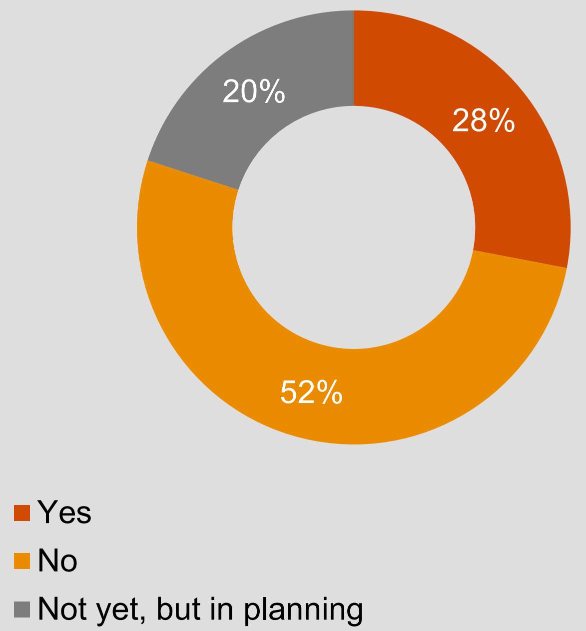
The topic of digitalisation is omnipresent – tax departments in the insurance industry are also dealing intensively with digitalisation in relation to existing tax processes.

Almost half of the firms surveyed are already engaged in this. Almost 27% of the firms surveyed already have a digital roadmap and a further 19% are in the planning phase.

The following tax processes are currently at the centre of digital efforts:

- Data import and transfer
- Tax calculations
- Tax reporting inc. quarterly financial statements
- Tax declarations, especially for the area of operational taxes (VAT, insurance tax and fire protection tax)
- E-balance sheets
- Country by country reporting
- Tax audit management

Does the group have a digital roadmap in relation to tax processes?



5. What are the Tax Function's Current Challenges? (5/8)

Digitalisation Efforts

The technology and tools deployed for the automation of tax processes are very varied and there is obviously a 'colourful' IT system landscape. Next to the well-known providers on the market, in-house manufactured tools are also used as well as software from small and large IT service providers.

A one size fits all IT solution for the majority of tax processes is rather the exception. It seems that the companies currently involved in automating their tax processes are concentrating specifically on individual application areas and are implementing corresponding applications or tools in a cherry picking fashion.

To this end, a large number of insurers are in a constant exchange with internal and external IT experts. In this context, it is particularly noteworthy however that two of the insurers surveyed even have their own IT experts in their tax departments, who are tasked with driving forward the digitalisation or automation of processes directly from the specialist department.

5. What are the Tax Function‘s Current Challenges? (6/8)

Parallel operational audits - a permanent task

In particular with regard to tax audits, an increased use of digital solutions seems inevitable in order to cope with the existing scope and complexity.

Although taxpayers and the tax authorities always make every effort to complete tax audits "promptly" - which should help to create legal and planning security as quickly as possible - a look at the operational practice of insurance companies shows a different picture: according to our survey, the last ‘open’ tax audit year for an insurance company is the year 2005, which means that this company has a total audit period of almost 15 years. Whilst this may not be the rule, it should be noted that for another five companies the last ‘open’ year of the audit is 2008, 2009, 2010 or 2011 and that these companies have almost 10 years ‘open’.

On average, insurance firms are dealing with around seven ‘open‘ audit years at once. The reasons for this may be different; a not insignificant proportion is certainly also due to the complex tax law and the associated tax dispute proceedings, some of which are not decided on by the (highest) courts until many years after the actual assessment period, and even decisions by the courts must first be implemented in practice in coordination with the tax authorities, which can usually take several more years.

It is precisely the taxation of capital investments - which is so relevant to the practice in the insurance industry – that due to several such court procedures has provided sufficient discussion material in tax audits and still occupies tax departments intensively today (for example, the ‘STEKO jurisprudence’ or jurisprudence on § 40a KAGG was mentioned).

“

On average, insurance firms are dealing with around seven ‘open‘ audit years at once.

At one insurance firm the last ‘open‘ audit year is the year 2005.

5. What are the Tax Function‘s Current Challenges? (7/8)

Tax Transparency – a New Trend?

A so-called tax transparency report has been produced and published by four of the insurance groups we surveyed. These companies are exclusively large insurance groups with an international presence, and or have a focus on capital markets.

A tax transparency report is the voluntary publication of tax information in order to exceed the legally required level for creating tax transparency, (e.g. within the scope of non-financial reporting according to §§ 289b ff. HGB and §§ 315b ff. HGB (German Commercial Code).

Another three insurance companies already plan to publish such a tax transparency report in the future. However, it remains to be seen how the German insurance market as a whole will position itself in this area.

At first glance, publication may not appear worthwhile, especially for smaller, non-capital market-oriented companies. In principle, however, it could be interesting for all insurance companies to consider publishing an appropriate tax transparency report.

The stakeholders of an insurance group may be quite different, depending on the legal form and also the size of the insurance company. However, even in the case of a local mutual insurance company, it may make sense to report regularly and literally ‘transparently’ on tax activities to its members and stakeholders in the political arena.

It is worth remarking that the world's first insurance company to publish a tax transparency report on the internet originated in Germany and thus set off an international development about three years ago. From an international perspective, a large number of insurance companies now have a voluntary tax transparency report.

Although the individual tax transparency reports vary considerably in structure and content, a new standard has recently been published by the Global Sustainability Standards Board (GSSB) of the Global Reporting Initiative (GRI). The ‘GRI 207: Tax’ deals with public reporting on taxes, whereby the main reporting components of the tax standard include information on the strategic management approach to taxes (in particular tax strategy including economic and social consequences, identification of tax risk and stakeholder interests in relation to taxes) as well as information that essentially comprises country-by-country reporting (CbCR).

5. What are the Tax Function‘s Current Challenges? (8 /8)

Tax Transparency – a New Trend?

The reporting standard goes well beyond the legally required level of transparency and is intended to promote a more open culture with regard to communicating the tax practices of a company. Companies should be able to use the new GRI standard to report transparently and fairly on their tax strategy and their tax payments or liabilities.

The standard covers every local type of tax. It is remarkable that the GRI standard for insurance companies introduces a public CbCR virtually through the back door.

Although the new standard can be applied independently of the other GRI standards and the standards for sustainability reporting do not require that a company must report in accordance with all GRI standards, nevertheless the introduction of the 'GRI 207: Tax' is likely to exert a certain amount of de facto pressure, despite its voluntary nature, and will probably encourage individual stakeholders (especially institutional investors and NGOs) to demand even greater - fiscal - transparency. It will therefore be interesting to see whether the new GRI standard increases the number of companies that have their ‘own’ tax transparency report or even publish a report according to the new ‘GRI 207: Tax’.

> **“Four insurance firms in Germany regularly publish a tax transparency report. A further three firms also intend to publish such a report voluntarily in future.**

6 The Outlook - Market Trends and Implications

6. The Outlook - Market Trends and Implications

Never before have tax issues been so important to governments, taxpayers and the public. For some time now, the tax function has been faced with constantly growing external pressure, but also with increasing internal demands. Developments in recent years have had a major impact on the current structure and design as well as the tasks and processes of tax departments. It is expected that this is only the beginning of a long-term and probably ongoing process of change.

The increasing diversity and complexity of the tax tasks to be performed requires a clear focus on and the targeted development of specialist tax knowledge. In this respect, the structures currently found in tax departments are likely to continue to undergo major changes in the coming years. Individual insurers are already developing a target overview of how their tax departments should look. This takes into account, among other things, which tax tasks are to be performed within or outside the tax department or within or outside the company.

In addition, the question of a possible digitalisation of tax tasks and processes is becoming more important. Tax departments have also been, or are being, forced, not least due to the COVID-19 crisis, to handle tasks digitally as far as possible and to guarantee a constant ‘ability to deliver’. It has become clear for individual insurance companies whether and to what extent their own tax department is even capable of doing this. The COVID-19 crisis could therefore also become a catalyst for digitalisation in tax and prove the necessity of establishing a digital roadmap.

There may be an opportunity to accelerate the existing digitalisation and automation efforts out of necessity due to the COVID-19 crisis. The personnel resources freed up in the process could be allocated to strategically important and complex tasks, thus recognising the growing importance of the tax department within the company. Last but not least, new business models, ways of working together and the continuing digitalisation of the business model of the insurance industry will lead to new tax issues and tasks which will strongly influence the future design of the tax function.

Authors

Till Hannig

Tax & Legal Insurance
Leader
PwC Germany

Katya Federspiel

Director
PwC Switzerland

Jakob Reineke

Manager
PwC Germany

Regina Götz

Associate
PwC Germany