The insurance marketplace is being transformed – and so is the tax landscape. As tax risk, scrutiny and complexity all increase, businesses are re-evaluating their tax functions. Drawing on a survey of tax leaders, we look at what kind of tax function is set to emerge from the shake-up and how can you make sure yours is fit for the future.

Insurance 2020 & beyond: Equipping your business for the global tax revolution

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Contents

Introduction: Tax at the crossroads

Welcome to Insurance 2020 & beyond: Equipping your business for the global tax revolution.

Tax is under the spotlight. Never before has tax been more important to governments, taxpayers and other stakeholders. Tax forms the basis for public spending, and governments want larger budgets to achieve their specific goals. The reputation and well-being of companies, including insurance groups, is also being affected by external perceptions of how they manage their tax affairs. It's vital that insurers respond in a clear and thoughtful way to a much wider base of stakeholders than ever before, including not only tax authorities and governments, but also regulators, investors, non-governmental organisations (NGOs), the media and the general public. In turn, 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.

At the same time, the importance and challenge of managing tax costs have never been more important. 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 ever 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 valued.

The challenges of managing tax risk and tax costs have been 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. The challenge isn't 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. Already stretched operational processes may find it difficult to cope.

Furthermore, the potential for reputational damage has been heightened by the risk of disclosing data that could be misunderstood or taken out of context under new regulatory transparency initiatives (e.g. BEPS Country-by-Country Reporting). Most tax functions will need to review and revise their reporting procedures to avoid potential financial statement errors, unnecessary controversy and delayed financial statements and return submissions, along with the increased recruitment and retention cost this may entail.

And tax compliance is itself becoming much more complex. Important developments for insurers include the shift in the focus of tax policymakers from where capital is held to where activities are performed and products are sold ('substance'), and the increasing emphasis on transparency, not only in a corporate's own tax affairs but also in its customer and investor tax reporting. The risks don't just include fines for non-compliance and under-payment, but also failure to identify over-payment, commercial costs arising from reputational issues, and exposure to double taxation within this fast-changing international regime.

Cutting across all these developments is the need to keep pace with a marketplace in transformation. With the rise of digital activities, insurers are increasingly analysing information and price to respond in real-time. The partnership networks through which insurers operate are also becoming more complex. The provision of back and middle office services with insurance groups is being restructured. Tax evaluation and planning needs to keep up with the rapid pace of changes taking place.

The new face of tax management

The result is set to be a marked shift in how tax is managed, the first signs of which are already emerging. By 2020, we believe that the organisation of a typical tax team and how it delivers its services will be very different from today.

So what does the tax function of the future look like? As both the business and tax environments are transformed, tax expertise has never been more critical.

Tax teams are already becoming more embedded within the frontline of the business[1] as a result of recent changes such as FATCA. Their direct input into strategic planning will continue to increase as they take on a more upfront role in areas ranging from product design and pricing to capital management and the location of key operations. Innovations such as real-time pricing will heighten these demands, especially where there are multiple risks or the policyholder or insured assets are moving across borders.

Changes in the tax regime will also require the business to take on more responsibility for tax compliance, reporting and payment, rather than leaving it all to the group tax team. Tax professionals will still be there to advise and help develop the necessary systems, but ultimate accountability will rest with the business. This is already beginning to happen – FATCA is a case in point as are insurance specific transaction taxes. The move to a sales-based taxing approach under the OECD's BEPS proposals would accelerate this.

1 More than two-thirds of the tax directors surveyed for this report confirm this.

64% of insurance CEOs see the increasing tax burden as a threat to their growth prospects,[2] compared to 57% two years ago

From an operational perspective, tax has found itself running behind the rest of the finance function, having been scoped-out of the process of rationalisation and automation that has transformed many finance operations over the past decade. As a result, tax operations still tend to be primarily manual or spreadsheet-based and disconnected from the main financial systems, forcing tax professionals to spend far too much of their valuable time on routine data gathering, cleansing and reporting processes. Now, however, both technology and support from finance service centres will be critical in enabling tax teams to source and process what will be much bigger and more diffuse datasets. Such systems and process upgrades will speed up reporting and reduce the risk of non-compliance. They will also help to provide the operational flexibility and adaptability to respond to continuing change.

Eventually, there will come a time when almost all routine tax reporting and compliance are automated. This will free up tax professionals to provide higher value advice and support. It could also mean less manual resources are needed, significantly reducing the cost of compliance. Therefore, one of the key challenges tax functions face is to understand where they can create the most value and relevance to boards and business teams they support, in this rapidly changing environment.

With shifts in the business environment, regulatory regimes and tax systems moving together at an unprecedented speed, the time to plan and implement the necessary changes in technology, processes and organisation is now.

In this paper, we look at the new skills and technology that will be needed to make sure tax teams are equipped for their changing roles in this age of disruption. We also look at how tax teams will operate alongside finance functions as they undergo a parallel shake-up.

The report draws on a survey of tax directors from around the world, who provided their perspectives on the road ahead and their readiness to meet the changing demands. Our thanks to all those who took part for providing their time and insights. We also draw on the findings of PwC's latest global CEO survey, which included a range of questions on tax.[3]

What emerges from this research is that while insurers generally recognise the need for change in their tax functions, most are still at the early stages of transition. So how can they get on track and transform?

2 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)

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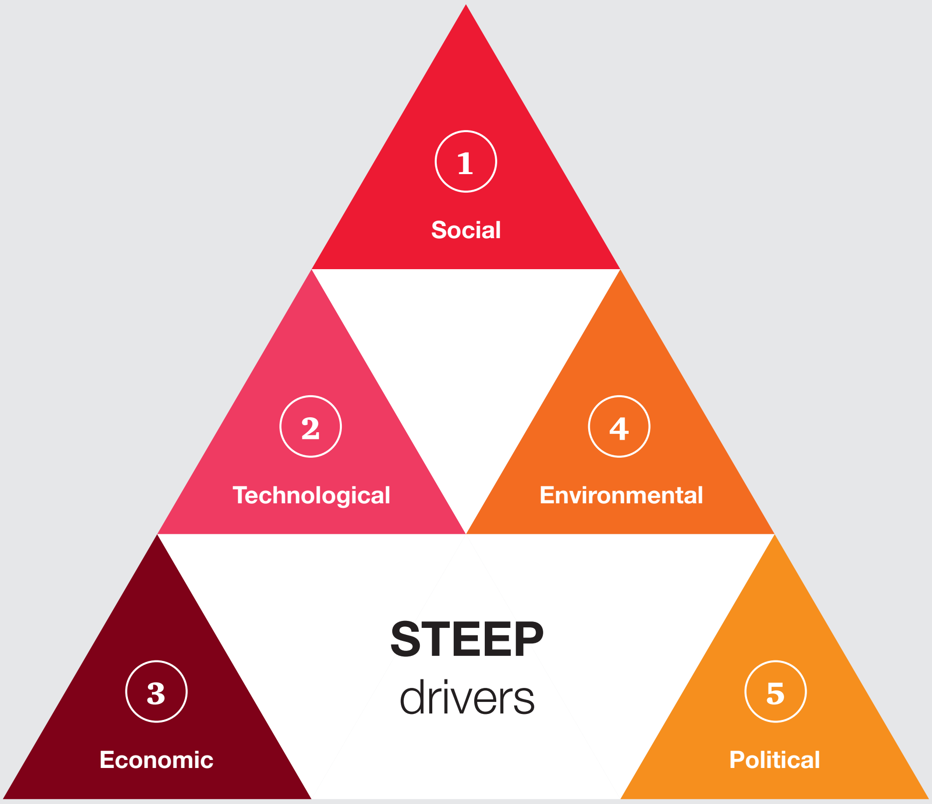
Insurance 2020

Insurance 2020 & beyond: Equipping your business for the global tax revolution is the latest in a series of viewpoints exploring the megatrends that are reshaping the commercial and operating environment for insurers worldwide.[4] The transformational developments stretch from hyperconnectivity to more exacting customer expectations, the shifts in public attitudes to the increasing cost and complexity of regulation.

Our clients are using the Insurance 2020 materials to help them judge the implications of these trends for their particular organisations and determine the strategies needed to respond. The central message from Insurance 2020 is that whatever organisations are doing in the short-term – be this 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.



1. Social
- Customer behaviours
  - Social networking
  - Customer expectations
  - Risk awareness
  - Health
- Talent drain
- Stakeholder trust
- Corporate social responsibility

2. Technological
- Information and analytics
- Devices and sensors
- Software and applications
- Medical advances

3. Economic
- Urbanisation
- New growth opportunities
- Fiscal pressure
- Inflation/Deflation
- Risk sharing and transfer
- Social security and benefits
- Distributor shift
- Partnerships

4. Environmental
- Climate change and catastrophes
- Sustainability
- Pollution

5. Political
- Regulatory reform
- Geopolitical risk
- Rise of state-directed capitalism
- Terrorism
- Tax treatment
- Sharia compliance (Takaful)

Source: PwC analysis

4 www.pwc.com/insurance/future-of-insurance and www.pwc.com/projectblue

1

New rules, new risks and new expectations: The changing demands on finance and tax teams

The insurance industry is facing an accelerating shift in market expectations and challenges to existing business models. As Figure 1 outlines, 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.

The changing business environment

Our Insurance 2020 papers have charted the demand for more intuitive, precise and fully customised risk cover, which is being made possible by the sharper customer profiling, predictive risk analysis and real-time risk pricing opened up by new technology.

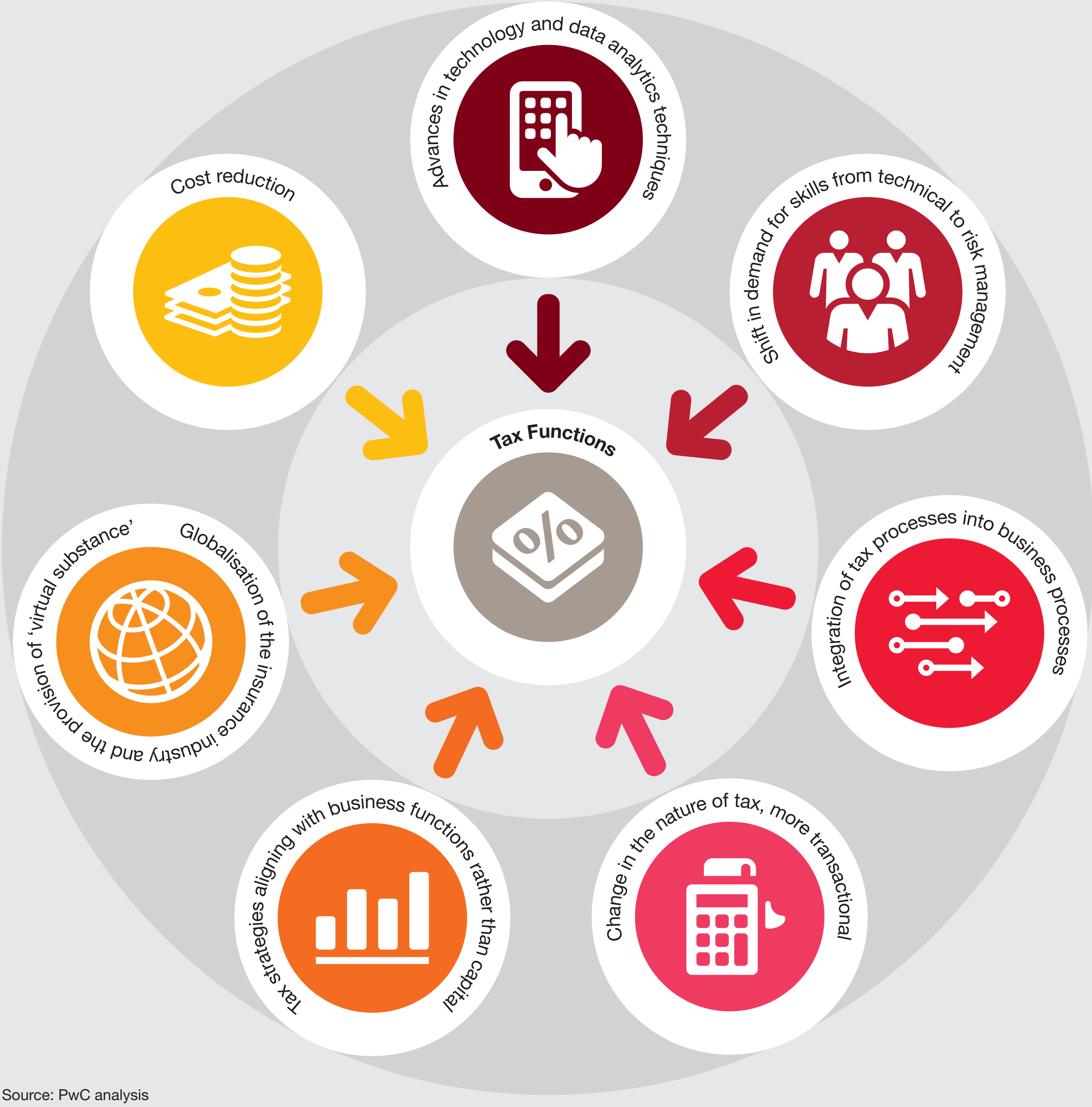
An example of how this would work in practice is digital tracking of barcoded haulage/transport containers, which would allow real-time analysis of risks including location, value of contents and, if aligned with other satellite information, factors such as weather. Risk could be priced to the minute, in line with the emerging 'pay as you go' sensor-based models in car insurance. Alternatively, on the retail side, a person might break one of his or her skis on holiday and go into a shop to buy another. The payment would trigger an immediate offer of warranty cover, texted to the buyer's mobile phone.

Rather than just being developments that can be left to IT and frontline business teams to initiate and manage, both tax and finance functions will need to be closely involved from the outset. For example, the shift to real-time pricing will require tax, actuarial and finance teams to play a more active role in pricing decisions. Looking at the example of the transport container or skier, tax teams would need to be able to provide an evaluation of the different premium taxes as the insured and the risks move across borders.

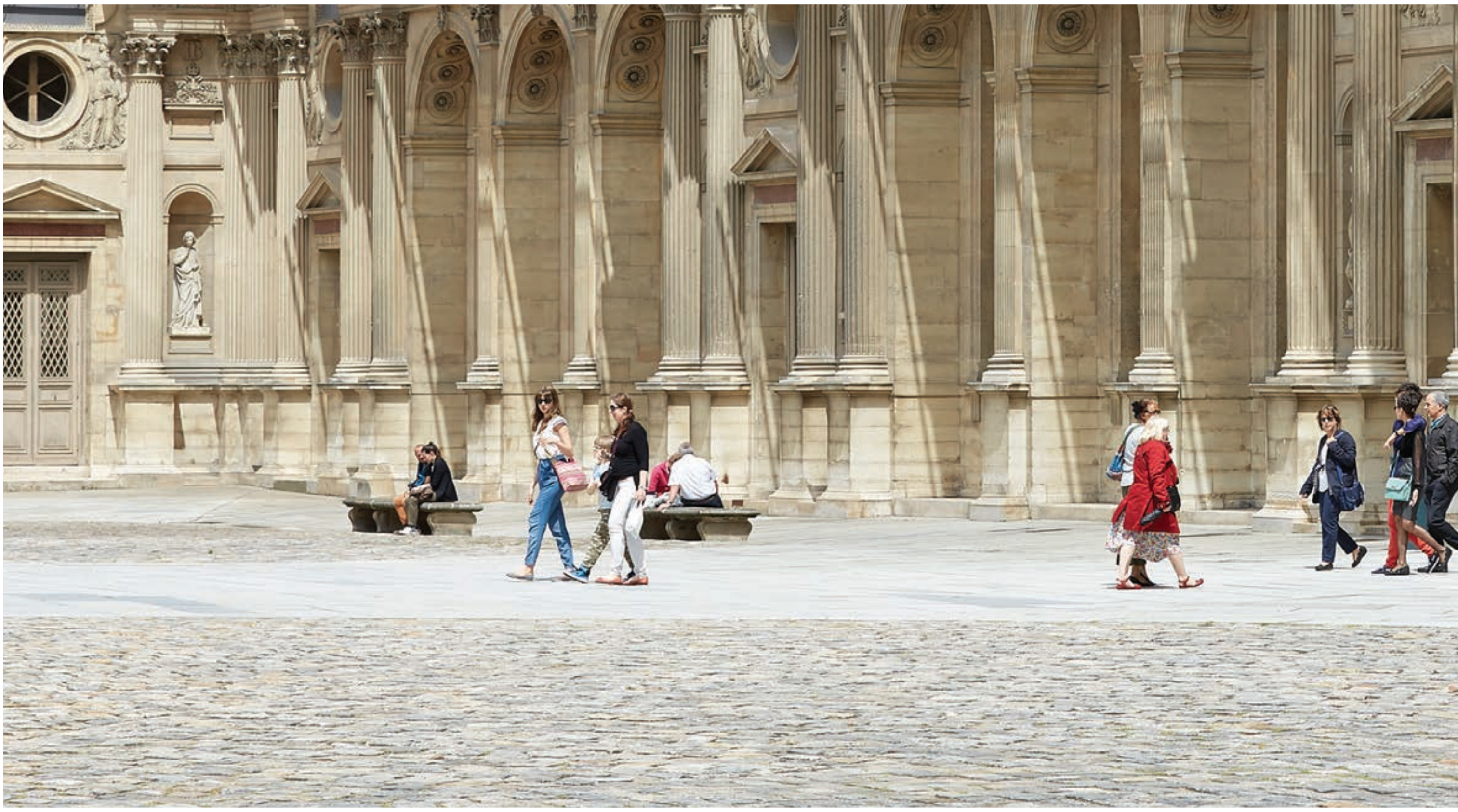
Finance moves up a gear

While the way insurance is provided is fundamentally changing, the need for manual intervention in many tax processes makes it hard to keep pace. It will be especially difficult for tax to provide the necessary input into real-time pricing and reporting, and there would as a result need to be an overhaul of systems and operations within tax and wider finance teams.

Figure 1: The perfect storm



Source: PwC analysis



CFOs don't always appreciate what they can expect from their tax teams and the tax teams themselves aren't always communicating this as part of a compelling case for investment.

For finance teams in the EU, the immediate pressures include the huge weight of extra evaluation and reporting, and much faster turnaround times required by Solvency II. The business' demand for what is in effect real-time financial information will add to the pressure to speed up data sourcing, analysis and reporting. In turn, the growing wave of merger, consolidation and restructuring precipitated by Solvency II is providing both a further catalyst for operational re-evaluation and systems overhaul.

As with any organisation, a combination of advanced analytics and artificial intelligence will be vital in making sense of the torrents of data flowing through the organisation and turning this into actionable insight and foresight. More and more routine functions will also be automated and rationalised within centralised service centres. For insurers, in particular, there is a growing need for tax, risk, actuarial and finance teams to collaborate more closely and, where possible, integrate systems.

But, the risk is that tax will be left on the sidelines of this fresh round of automation and reorganisation. This has often been the case in the past. A common reason has been the perceived complexities of tax operations, which has meant that they are seen as too difficult to include in the overhaul. But it's also because CFOs don't always appreciate what they can expect from their tax teams and the tax teams themselves aren't always communicating this as part of a compelling case for investment. The result is a growing efficiency gap in which much of the tax function's time is spent expensively cleansing and reanalysing data coming from finance and the wider business. Leaving tax out of the wider finance and actuarial transformation can only exacerbate this efficiency gap.

The changing tax environment

Recent media, public and political scrutiny of the tax affairs of multinationals have brought tax policies and their application to the top of the government and boardroom agenda. The governmental reaction is now unfolding in the form of imminent shifts in international rules and a tougher approach to enforcement, adding to the impetus for major change within tax functions. The tax reforms highlight governments' determination to boost revenues and close the tax net around international corporations. The focus on transactions and taxing at the point of sale will require new systems within the business itself to manage tax, rather than simply passing the responsibility to group tax.

Decisions over the 'right' amount of tax to pay should take full account of both the reputational risks and the extent to which tax is now a key element of an insurer's 'licence to operate' in a particular jurisdiction. The challenges are heightened by the speed with which attitudes can change. This means that what was seen as acceptable when the planning was carried out can become a source of controversy by the time a tax audit is due.

The sharp rise in global tax reporting requirements will have a material impact on the operations and related budget allocations within the tax function. Key instances include the new Country-by-Country reporting under the BEPS Action Plan. Information-sharing will be commonplace across tax jurisdictions, and tax authorities will have the capability to mine data and to conduct global audits, resulting in increased disputes. Tax (and possibly other) regulators will demand transparency regarding global taxation, necessitating clear and thoughtful communications with public stakeholders about corporate contributions to the communities in which they do business.

Equally challenging is the speed of change, with all tax treaties within the OECD being amended during the same time frame and a flurry of other new demands coming on-stream. For tax teams, this means that a huge amount of new variables and uncertainties will come into play. This in turn creates a much bigger risk of non-compliance on the one side and paying too much tax on the other. Both boards and tax authorities will want assurance that the necessary governance and controls are in place.

For insurers, and financial services businesses more generally, there is the particular challenge of being expected to play a more active role in overseeing the tax arrangements of customers and investors. Relevant legislation includes the Automatic Exchange of Information (AEOI) under FATCA and the CRS. While developments require closer collaboration between tax and business, it will ultimately be up to frontline business teams to take clearer ownership of their obligations to taxing authorities.

The first priority for tax directors and their teams is to evaluate the impact of the future changes on their business and advise the leadership on the implications. The need to ensure that tax arrangements reflect where value is created ('substance') and align tax with wider corporate strategy makes it more important than ever for tax teams to work closely with their frontline colleagues. Over the past few years, the priorities for tax optimisation within many organisations have shifted from simply minimising the effective tax rate to determining which tax efficient locations would also offer the talent, infrastructure and other capabilities needed to sustain real substance. This shift will now move further and faster.

The other big consideration is how to manage the heightened complexities of compliance in a way that not only minimises risks and costs, but also facilitates businesses innovation and moves into new markets. While tax compliance will become more aligned with other aspects of regulatory management, a tax error will have an immediate financial cost. Tax authorities and market supervisors are also now communicating and collaborating more closely, with any lapses in tax compliance now seen as a potential indicator of control failures in the wider finance function.

2

New skills, new partners and new technology: Getting transformation on track

So, how can tax teams equip themselves for the future? To answer this question, we've broken down the changes on the horizon and how this will affect skills, systems and organisation into five key priorities. We then asked tax directors to gauge progress in meeting these new demands. While these developments are already gathering pace within many insurers, others are at an earlier stage of transition.

Priority one

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

Along with the accurate reporting of tax results, tax teams should provide assurances to their boards, the tax authorities and other stakeholders on the adequacy of the controls and process framework used to manage tax risks. 'How' tax delivers is becoming as important as 'what' it delivers.

The importance of reviewing and revising tax controls is heightened by the growing focus on their effectiveness. Some tax authorities already expect companies to share details of their tax control framework with them. Looking ahead, the OECD's publication of guiding principles for the construction and use of tax control frameworks will place more pressure on companies to review this issue.

Organisations that have met the challenges of the changing tax environment recognise the need to modernise the tax control framework and its components. The components of a control framework were defined by COSO – the most widely used risk framework for defining internal controls. The common threads that run through a well-managed tax control framework consist of:

- strong tax governance, with an agreed tax strategy that is in line with wider business objectives, reflecting the expectations of customers, staff and other stakeholders
- an in-depth understanding of where the key risks lie within the business, including indirect and employment taxes
- effective and efficient controls to mitigate identified risks
- a clearly defined and transparent communications' strategy, which sets out the approach to managing tax internally and externally
- monitoring to ensure all these aspects of the framework are functioning properly.

If there is clarity around tax management, the organisation's tax strategy will be aligned to its business strategy, and this will help to reduce reputational risk and tax disputes.

Around 80% of the tax directors we spoke to believe that their information systems require enhancement, with most looking ahead to a significant overhaul.

Priority two

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. The business case includes opportunities to improve the quality and reliability of data, speed up reporting turnaround and reduce the costs and risks associated with manual input and reconciliation. These developments would also improve the tax function's ability to support market innovations and contribute to real-time pricing.

In an environment where data extraction and validation is automated, tax professionals will need to be able to develop and maintain controls capable of identifying any problems without detailed examination of the data. The value of such controls is that they can be used to identify problems as they arise, as opposed to quantifying a problem after the fact. An example is the analysis of withholding tax rates using real-time transactional data from the investment portfolio.

Further priorities include working with business teams to help set up the internal systems and processes to collect transaction data, report and pay within what could be a matter of days. This would be akin to the segregation of tax at the point of sale needed for sales taxes such as VAT. But there are likely to be further challenges in unpicking the complexities such as the different types of assets in the portfolio and how they ae traded. Proficiency in tax technology and data analytics will be an important aid as tax becomes more closely involved in systems development and automation. It will also be important for tax professionals to embrace data analytics as they look to provide more forward-looking advice to the business.

Solving the data issue is complex and requires a cross-functional approach. There are three main routes to strengthening tax data:

1. Make use of the Enterprise Resource Planning (ERP) system to tax-sensitise the data and provide reporting capabilities into the detailed sub-ledgers. Depending upon the complexity of the environment, this may need to be combined with (2).
2. Create a tax data hub that includes all necessary data to support the tax processes and also houses the final compliance data from the provision and compliance solutions. Tax has two options: leveraging their enterprise investments and building out the tax-specific data hub, or buying off-the-shelf (OTS) software.
3. Outsource the capability to a third party which has invested in building out data analytics and reporting capabilities.

However, while the rationale for systems' overhaul is compelling, the slow pace of systems development raises questions over whether the business case for change is being articulated effectively. Around 80% of the tax directors we spoke to believe that their information systems require enhancement, with most looking ahead to a significant overhaul. More than 80% also recognise that they need to change their information systems, though most have yet to draw up a plan for implementation.

Both our survey and the developments in the marketplace underline the importance of real-time customer-facing information, which would need to be produced at a lower cost than today. If the plans and resources are not in place to deliver these changes, then the challenge from competitors and perhaps more importantly, new entrants, will be significant.

Priority three

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. 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. The need to work closely with the business and be a valued member of the decision making teams requires both stakeholder management skills and a deep understanding of the business and its marketplace. The growing likelihood of investigation and audit will increase the importance of negotiating skills. The shifts in tax policy will also see more tax professionals working with government relations' teams. At the same time data analytics, process improvement and project management skills will become core skills for every tax function.

A key question will be: To what extent do these skills need to be available within the tax team itself, as opposed to being 'bought in' to the tax function from other parts of the business or from outsourcers? Alternatively, to what extent will previously core activities (e.g. monitoring tax policy or negotiating tax audits) be taken over by other functions within the business? The future shape of many tax functions will depend on the conclusions that organisations reach to these questions.

More generally, it's important to evaluate what type of people and skills are required in this new world, in what numbers, where they will be deployed and whether existing staff can be retrained or new personnel will need to be hired. Our survey found that only around a third of tax directors have drawn up a plan to adapt resources and deployment to the planned changes.

It's important to evaluate what type of people and skills are required in this new world, in what numbers, where they will be deployed and whether existing staff can be retrained or new personnel will need to be hired.

Priority four

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

As insurance shifts towards more discrete coverage and real-time pricing, tax teams will need to operate much closer to commercial transactions and the underlying risks and cash flows.

At present, tax isn't calculated off the underlying underwriting system. But tax will now need to be part of the functionality. If we take an around-the-world airline ticket as an analogy, all the airport taxes in each jurisdiction are included in the quoted price. But insurers would still need to refer back to their tax teams to calculate premium taxes for such cross-border movements.

The shift in tax focus to the customer means that tax teams would need to develop a better understanding of how and where value is created and exchanged. It's also important to improve their ability to explain where value is created to tax authorities to help mitigate the risk of tax disputes. While taxing a transaction may seem relatively straightforward, complexities are likely to arise in areas such as asset management, which can involve multiple transactions.

Tax teams are now working more closely with their frontline colleagues. More than 70% of the tax directors in our survey said their teams had some involvement in product design, for example. However, a more far-reaching shift in deployment and business skills will be needed. Business teams within compliance might 'own' their own tax professionals outside a traditional tax function. In some organisations, this change has already taken place.

Tax teams are also being called upon to advise on the best location for key operations, with tax optimisation likely to focus on countries that combine substance and competitive tax rates. Increasing globalisation of the insurance industry will particularly favour existing low-tax jurisdictions, which have invested in the infrastructure, talent and expertise to provide 'virtual substance' in a digital age. Examples include Bermuda, Hong Kong and Singapore and arguably, also the UK.

Tax professionals have traditionally employed high levels of analysis to interpret complex rules and determine the 'right' answer. In the broader commercial context of 2020, the rules that need to be applied will be less prescriptive and the 'right' answer will be less clear-cut. It's important to ensure the right mix of people to manage the wider range of issues in a compliant, but cost-effective fashion. A conservative approach would be costly in its impact on tax and capital, while a less conservative approach may open the organisation up to an unacceptable level of risk. Understanding how tax fits into overall risk tolerances is crucial.

In line with the changing nature of the risks, tax teams must also work with a more varied group of stakeholders than is currently the case, including sales and marketing teams. This would require them to communicate in a less technical way.

All of these changes will lead to a less prescriptive, more principles-based approach to compliance. Process, documentation and monitoring will become as important, if not more important, than the technical analysis itself. The resources of the tax department and the skills of the personnel will need to be looked at again in this light.

Priority five

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

Effective compliance management is vital in understanding tax liabilities, paying the right amount and being able to demonstrate that this is justifiable to tax authorities and the media. But the 'right' tax goes further. It includes paying what is considered to be a fair amount of tax as part of the support for the communities in which the business operates. Tax would be incorporated into corporate social responsibility strategies as appropriate. It could also become an important part of the total impact assessment by finance teams, which goes beyond simply looking at financial return to gauge the impact on the community, the environment and business partners.[5]

These developments put greater emphasis on tax strategy and monitoring developments in tax policy trends and changes in public attitudes. While many large insurance groups already have people in place to do this, in future it will be a priority for all.

Less than 10% of the tax directors in our survey are focusing on how to reduce their effective tax rate, reflecting the reputational sensitivities surrounding tax arrangements. While none have shelved tax planning altogether, more than 70% accepted that public and political pressures have affected their tax function.

Recent press scrutiny has highlighted the fact that it is no longer enough for tax teams to be seen to be doing the right thing – they need to be seen doing so. A whole new level of interpretation is required to overlay the technical analysis and organisations must ensure that they have the right people to apply this interpretation at a reasonable cost and without creating unacceptable risks.

Less than 10% of the tax directors in our survey are focusing on how to reduce their effective tax rate, reflecting the reputational sensitivities surrounding tax arrangements.

5 Total impact measurement values social, environmental, tax and economic impacts of business decisions to enable boards to assess the interactions and trade-offs (http://www.pwc.com/totalimpact)

Conclusion:
Gauging the right way forward

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.

Our research for Insurance 2020 & beyond highlights the significant changes ahead. But the necessary plans and resources are in most cases yet to be put in place. The longer this is left, the greater the risks of non-compliance and reputational damage.

The need to balance tax optimisation and compliance in a highly sensitive tax environment will be central to achieving cost-efficiency and sustaining the social licence to operate in all relevant territories. This will require tax teams to develop a whole new set of skills, collaborative processes and evaluation criteria.

Indeed, given the current speed of regulatory, technological and social change, the challenge 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.

So, where to start? It has been said that it does not matter where you start, as long as you do. However, in order to make the vital first step we believe that every board (and tax team) should ask themselves if they can answer the following series of questions:

1. Do you know what 'tax-optimised' really means for your business? Are you clear about the right match of tax maturity levels against your organisation's overall risk tolerance, and how that may evolve as tax risks and obligations change further over the next few years? Crucially, are you able to articulate your approach to tax authorities around the world, and to other external stakeholders with an interest in tax?

The tax function maturity model can help your business to identify where you are now. But at what maturity level should your organisation be operating? The right maturity level depends on many factors including your risk tolerance.

2. A dominant theme of today's world is the centrality of data – as we've argued in this paper, this is as true of tax as it is of business overall, and data mining and analytical skills will become increasingly crucial to tax teams. The switch from gathering and managing data, to mining and analysing it, is a significant shift for many tax functions, but will be a crucial skill in the tax function of the future. Alongside this, government policy, project management and negotiating skills will become increasingly important to tax functions. How will you source these skills – from within the tax team itself, from elsewhere in the business or from external providers?

Figure 2: Tax function maturity model

Where is your business now? Where do you want it to be?

Level 5: Optimised

Processes are efficient, based on best practices and continuously monitored for improvement opportunities. Deliverables are high quality and the organisation is able to adapt quickly. Integrated portal access crosses functions with advanced automated workflow, embedded controls, analytics and rules with actionable insight.

Level 4: Managed

Processes are actively monitored and deviations are detected in time. Processes are continuously improved in the area of efficiency. Technology tools are aligned with the overall organisation and integrated, providing some predictive analytics. Robust controls define the process.

Level 3: Standardised

Processes are standardised, documented and communicated (e.g. through training). Compliance with these processes is still very personal. Deviations from the written procedure may remain unnoticed. Technology includes a mix of licensed software plus a tax sensitised ERP or tax data hub(s). Minimally acceptable internal controls are followed.

Level 2: Informal

Roles and responsibilities are mostly informal and the execution is based on experience within the processes. There is no formal training, communication or standardisation. Licensed software is used with limited integration and internal controls are limited.

Level 1: Initial

The organisation is mainly incident-driven. Issues are addressed and handled at the time of occurence on an ad hoc basis. Basic software is used, but is not integrated and no internal controls are in place.

Source: PwC's: Reshaping the tax function of the future: Predictions and insights

The switch from gathering and managing data, to mining and analysing it, is a significant shift for many tax functions, but will be a crucial skill in the tax function of the future.

3 Tax technology tools and software have undergone dramatic evolution over the past three years, and automated solutions to many tax processes are now becoming not only viable, but cost-effective. This is opportune at a time when new tax compliance obligations are mushrooming. Does your organisation understand the technology that is now available around tax, and the new resources that are increasingly coming on-stream? Do you understand the implications of the new technology on the future shape of your tax function?

There is a strong business case for change in tax functions across all sectors of industry, built around the number of tax compliance obligations, closer scrutiny by tax authorities, the increased viability of automating tax processes and the potential for measurable efficiency gains.[6] In the insurance sector, the business case is heightened by the impact of regulatory change, which is spurring many businesses to reassess and upgrade their risk and finance capabilities anyway. Your business can take advantage of valuable synergies and benefits by bringing tax into this wider overhaul.

6 Our cross-sector paper, 'Reshaping the Tax Function of the Future – Insights and Predictions' looks at some of these drivers in more detail (www.pwc.com/taxfunctionofthefuture

Contacts

This paper only covers a little of the picture and there is much more to share and discuss. If you would like to explore the trends further and assess how they will affect your business, please speak to your usual PwC contact or one of the authors listed here:

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