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Best Practices for Actuaries Collaborating with Accountants and Lawyers

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Tax and statutory accounting changes present complex legal questions and challenges in product development and financial reporting, underscoring the importance of collaboration between actuarial, financial and legal departments.

To get perspective on best practices for tax actuaries collaborating with accountants and lawyers, we interviewed three representative tax leaders who included the chief tax officer (CTO), chief tax actuary, and chief tax counsel from three major U.S. insurance companies. Their comments have been paraphrased to maintain confidentiality.

WHAT IS YOUR CURRENT POSITION AND ROLE, AND HOW DOES IT FIT WITHIN THE CORPORATE STRUCTURE?

Companies have different approaches with regard to corporate structure to address oversight for tax issues due to different organizational structures and company size. Some companies have a dedicated tax actuary position to provide oversight on tax issues. At other companies, responsibility for oversight falls to the tax group or business units, with actuaries brought in as needed for their expertise. Additionally, some companies have separate tax accounting and tax counsel departments. Notwithstanding these different structures, life insurance companies often face similar challenges in responding to various tax requirements.

Chief Tax Officer:

I am a senior vice president and CTO at a large life and property and casualty (P&C) insurance company. The tax department is responsible for all aspects of tax reporting, planning, and operations, from premium and payroll taxes, to federal, state, and local income tax. The tax department reports to the chief financial officer (CFO), and provides oversight for tax issues impacting the company. My company does not have



a dedicated tax actuary role, but the tax group works closely with the life actuaries on tax issues.

Chief Tax Actuary:

I'm the chief tax actuary at a large life insurance company. This position is part of the tax team, outside the regular actuarial group. In my role I act as a liaison between the tax department and the business unit actuaries, providing support for financial reporting, and working with the finance and legal teams on product development and reserve issues.

Chief Tax Counsel:

I'm the chief tax counsel at a large life insurance company. The legal and accounting teams are separate functions at my company. This has been an effective structure as it provides better governance. The legal team supports the tax accounting group on tax legal issues, including IRS and other tax audits as well as federal, state, and local taxation issues associated with

the operation of the business. There used to be a dedicated tax actuary in the tax accounting group until a few years ago, but currently, we utilize an actuary who reports through the chief risk officer and spends about 50 percent of the time on tax issues.

HOW DO YOU OR YOUR TEAM INTERACT WITH ACCOUNTANTS/ LAWYERS/ ACTUARIES IN YOUR CURRENT ROLE?

Recent and upcoming statutory and tax accounting changes have increased the need for greater interaction between the finance, actuarial, and legal teams. Tax implications of principle-based reserves (PBR) for both life insurance and variable annuity products and the recently effective 2017 Commissioner's Standard Ordinary (CSO) mortality tables impact product development, product pricing, tax planning, and corporate reporting. Actuaries, accountants, and lawyers must collaborate closely to ensure assumptions, models, and reporting are aligned with the company's strategy and legal interpretation of the tax code.

Chief Tax Officer:

The tax team works closely with actuaries. Life and P&C insurance is equally weighted at our company, but over the last few years, the focus has been on life insurance. We work closely with actuaries on corporate reporting issues, including variable annuity (VA) hedging, gains/losses, and tax reserves.

The planning group in the tax department collaborates with the actuaries on modeling issues to understand the long-term ramifications of their assumptions on financial projections.

Our product development group includes the legal area and the actuaries, and the teams work closely on PBR, determining the likelihood of scenarios and which scenarios should be used.

Other initiatives over the years have included captives, reinsurance, modeling, and corporate restructuring.

Actuaries and lawyers are included in negotiations about the future status of variable annuity valuation (Actuarial Guideline 43), and are involved with industry groups to explore the impact of hedging and interest rates on AG43 and risk-based capital (RBC) implementation issues. The tax team keeps the actuaries privy to other issues, like possible future legislation on the impact of dividends, product pricing and separate accounts, keeping them educated so they know when to reach out and ask the right questions.

Chief Tax Actuary:

As a tax actuary, I work with the tax team on financial reporting and serve as consultant on product development issues. We work with valuation actuaries during the financial reporting

period or to help resolve tax issues. We collaborate with financial reporting and tax attorneys on product development and have weekly calls to discuss tax developments and subjects.

We also give advice to the business units. Fluid relationships are important to develop with the business units so they can call if there are questions. We have a quarterly meeting with the business units to discuss GAAP, statutory, and tax reporting and identify issues. Attorneys are not regularly included in these calls but we bring them in when needed for additional support.

Companies have different approaches with regard to corporate structure to address oversight for tax issues due to different organizational structures and company size.

Chief Tax Counsel:

The legal team supports the tax accounting group regarding all company tax issues associated with business operations and audits by various tax authorities, including the IRS.

We have several standing cross-functional committees that each meet regularly to discuss developments in their particular areas of responsibility. There is tax representation (accounting and/or legal) on many of these committees. These cross-functional committees deal with matters such as new product development and pricing as well as new investment opportunities. On an ad hoc basis, we will also work cross-functionally on various legislative and regulatory matters. Where insurance-specific issues are involved or insurance risks need to be quantified, actuaries are essential members of the team.

WHERE DO YOU SEE IMPORTANCE FOR MORE COLLABORATION?

As life insurance companies react to PBR and 2017 CSO, increased product innovation is expected. PBR, as well as growth of technology, has also led to companies expanding their technological capabilities, implementing valuation and administration system conversions, and data warehousing updates. Some companies are exploring the use of digital labor. Our interviewees identified technology and product development as key areas where more tax expertise was needed. Companies should consider what resources are required to ensure tax issues are addressed effectively through these initiatives.

Chief Tax Officer:

More collaboration between the actuarial and finance departments/teams on reserve issues is important as products change.

There is also a need for more collaboration on technology issues. Generally, tax is the last consideration with the technology people, and vendors do not have tax expertise. Technology initiatives like Tableau data warehouse implementation should consult with the tax department to ensure a successful outcome.

Chief Tax Actuary:

As product development becomes more innovative, there are more opportunities for actuaries and attorneys to work together. Variable annuity reserves and PBR present complex legal issues and require collaboration between these functions.

Chief Tax Counsel:

As fundamentally new actuarial standards (e.g., PBR) become effective, it is particularly important for cross-functional teams (including actuaries and lawyers) to work together to plan for the impact, if any, on in-force business as well new product development and pricing. The design and redesign of

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various actuarial systems is another area where collaborative, cross-functional teams are particularly important throughout the design and redesign process. Tax can't be an afterthought—that is highly inefficient.

IN YOUR VIEW, WHAT ARE SOME BEST PRACTICES FOR THESE TEAMS TO COLLABORATE SUCCESSFULLY?

Our interviewees all agreed that good relationships and frequent communication between actuarial, financial reporting, and legal teams are key to ensuring tax issues get addressed appropriately and efficiently. Regular meetings that include all the key players can help foster relationships and ensure buy-in from different functions on major company initiatives. Responsibility of oversight on tax issues should be established as part of the corporate governance process to provide accountability.

Educating actuaries on tax requirements is essential to making sure they know how to identify issues.

Chief Tax Officer:

Good relationships and communication are key. People need to understand what impacts them and who they should talk to. Actuaries are not necessarily tax experts, and good communication between the tax and actuarial teams is key to making sure tax issues are being addressed appropriately.

Regular meetings that are defined and visible will help foster relationships and make sure both teams know what's important to each. We have quarterly meetings with the chief financial officer and with business units to ensure everyone has a uniform view on issues.

For repetitive work like financial reporting, all the relevant parties should be involved, and processes should be mapped out, including accountability and timing. This allows people to know right up front where there are significant handoffs. Automating the process helps people to be more self-sufficient and decreases risk.

For critical projects, in order to have buy-in, all the relevant parties need to be involved and committed to the decision-making process. Meetings should be project-oriented and have a set objective and agenda. All elements of the project should be considered, including timing and monitoring. The tax team needs to communicate what it needs and when. Information should be coordinated with controllership and timing well defined at a more granular level for staff.

Regular educational meetings with relevant parties are also important. Actuaries are not necessarily tax experts, and having regular educational meetings to provide updates on tax issues helps ensure they stay informed and know when to reach out and ask the right questions. Having a dedicated tax actuary would be helpful, but you have to go product by product.

Chief Tax Actuary:

Good relationships between various functions are key. It's helpful to have multi-functional teams that meet regularly. This helps to build relationships and foster better working interactions. Having a large network within the company means people know the right person to go to with issues.

It's not always helpful to have everyone included at the same time, but it's important to have the right levels of communication when needed. There needs to be a feedback loop so that different functions know what others are doing, what actuaries are reporting, and how it gets captured in the overall reporting.

Corporate structure can play an important role, establishing responsibility of oversight. A product tax compliance group, divided into areas of responsibility with business units, has

been an effective structure to ensure someone is considering tax issues full time. Attorneys and tax actuaries need to be plugged in. Having a dedicated tax actuary is helpful—you can't expect every actuary to be an expert on tax, and it's good to have someone who understands oversight over tax issues.

Chief Tax Counsel:

You can't overemphasize the importance of regular and systemic communication. Make sure everyone whose expertise is relevant is included in the communication loop. One of the keys to being effective is understanding each other's worlds and knowing when there is an issue, and who to call. Not everyone will have deep expertise in all areas, but everyone needs to know enough to know what we don't know. Good working relationships with lawyers and accountants are key. Committees that include all of the relevant functional areas are an effective model. Frequency of interaction will play a role in ensuring people ask questions and understand the nuanced application of the law.

It's crucial for management and senior leaderships to actively encourage this culture.

Providing training for actuaries on tax issues is also important. There is concern that the actuarial licensing requirements do not place enough emphasis on tax, and as a result, some actuaries do not have enough sensitivity regarding statutory and tax frameworks (and their respective differences). Actuaries don't need to be experts, but need to be aware of how to identify concerns and ask questions as they arise.

CAN YOU PROVIDE SOME REAL- OR IDEAL-WORLD EXAMPLES OF EFFECTIVE STRATEGIES?

Our interviewees agreed that effective communication was key and was everyone's responsibility. Being outgoing, vocal, and proactive about building partnerships across functions ensures a successful outcome.

Chief Tax Officer:

Take ownership for developing partnerships with other functions. Include relevant parties in initiatives from the start to get buy-in. We recently had an initiative to improve our variable annuity hedging program in response to the Directive¹ that resulted from a recent IRS Industry Issue Resolution. We worked closely with the actuaries, describing what we were trying to do and explaining the IRS's decision. We involved the actuaries in industry calls and we consulted them on the variable annuity hedging model to understand how our hedges worked, how they differed from other companies, and how to improve the program. As a result, a strong partnership between the functions came about.

Chief Tax Actuary:

Tax issues are often overlooked. It's important to be vocal and make sure people know who you are. Being visible, speaking at

actuarial events, and participating in in person meetings help other areas remember tax should be considered.

Chief Tax Counsel:

Being outgoing, engaged, and proactive is key. Within the business units, product managers own issues, and are expected to bring relevant expertise to what they are doing. It is most important for these folks to have the knowledge and experience to know how to ask the right questions and bring the relevant resources to bear on a particular initiative and then to make it happen.

As busy insurance tax professionals, it is easy to lose sight of the important functions that must come together for successful results. We were reminded about, and even learned, some important things about the various expertise that is needed to develop life insurance products, determine tax liabilities, and ensure appropriate and timely reporting. We thank our interviewees for their time and thoughtful comments. ■

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ENDNOTES

- 1 "I.R.C. §446: LB&I Directive Related to Hedging of Variable Annuity Guaranteed Minimum Benefits by Insurance Companies (LB&I-0-0514-0050)"