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Addressing socially-conscious stakeholders and tax transparency: a survey of 65 insurance companies

Introduction

The insurance industry in South Africa is facing a variety of disrupters in its operating environment. One of these is the increased level of public scrutiny on companies and the perceived impact that they have on the economy and the citizens of that economy. The views held by stakeholders have an impact on businesses.

The impact that social media has had on countries, current events, companies etc., is something that cannot be discounted due to its massive reach, the ease of creating content and relatively quick consumption. One of the concerns social media has created is the ease of spreading misinformation. With this in mind, the way in which insurers communicate their overall impact on the economy and the community is of utmost importance in order to address socially conscious stakeholders.

Socially conscious stakeholders are stakeholders who prioritise ethical, environmental and social impacts alongside financial returns when making decisions.

Governments generally use taxes to generate funding which they can use to support public services such as health, infrastructure and education. As such, the collection and payment of taxes is key to providing the required funding. As the world becomes more globalised, the perceived risk of multinationals not paying their "fair share" of tax in the right jurisdiction is elevated. In order to eliminate this risk, some companies are considering the voluntary reporting of their tax contributions in terms of a tax transparency report.

The rationale is that transparent tax practices can create a more engaged relationship with stakeholders. It is posited that making stakeholders aware of a company's tax contributions (i.e. corporate income tax, value-added tax and employees' tax) and how these support public services and social welfare initiatives can create a sense of reciprocity. For example, clients may feel that, by choosing a socially responsible insurer, they are, through their premiums, contributing to the well-being of society, which can enhance customer loyalty and advocacy.

This article aims to take a closer look at how insurers can attract, retain and engage socially conscious stakeholders through tax transparency reporting.

Tax transparency

In broad strokes, tax transparency refers to the practice of openly disclosing clear information about a company's tax payments, strategies and overall tax contribution. Simply, by making tax information that is easily accessible and understandable, companies can provide stakeholders with the certainty that their tax practices align with ethical and legal standards.

Tax transparency reporting is not mandated in South Africa. However, there are a number of global reporting frameworks, such as the Global Reporting Initiative, specifically Standard 207[1], that can be followed. Voluntary reporting demonstrates a commitment to openness and ethical conduct, which in turn can enhance a company's reputation and trust.

It is likely that, over time, tax transparency reporting will become mandatory, with several countries already in the planning stages of achieving this. Furthermore, there are ready pieces of legislation that require some form of mandatory reporting, such as Country-by-Country reporting, which requires a company, in certain instances, to disclose the various taxes paid in the various jurisdictions in which it operates.

With this in mind, these frameworks could (and should) be used as a starting point for insurers wanting to report on their tax practices publicly. There is no "one-size-fits-all" approach, and the reporting should be carefully considered to ensure it aligns with the company's strategic focus.

One of the most common concerns about voluntary tax transparency reporting relates to the disclosure of sensitive financial information, or at the least the competitors' ability to "reverse engineer" certain numbers. Accordingly, a balance needs to be struck between being transparent and the protection of sensitive information. Various strategies exist which would mitigate any potential risks, including aggregated reporting (which would maintain a level of confidentiality) and using established standards (such as the voluntary frameworks).

[1] Other standards include B-Team, WEF and UN PRI.

Companies may be reluctant to adopt tax transparency reporting in instances where they pay minimal corporate income tax. What is overlooked in these instances is that corporate income tax is merely a constituent in the overall taxes managed by a company. In this regard, companies may report on other taxes including the management and collection of Value-Added Tax, employees' tax etc. Further, the use of tax incentives may also reduce the taxes paid, but its benefit to the economy and the community as a whole should far exceed the taxes not paid.

Enhancing intra- and inter-organisational relationships via tax transparency

Policyholders

As with many industries, customer trust in the insurance industry is pivotal to business growth. Tax transparency offers another mechanism to do so beyond traditional strategies. While policyholders' trust can hinge on factors such as the affordability of products or the ease of administration, the civic accountability and responsibility of the company should not be overlooked. By being transparent about tax practices, insurers can differentiate themselves from competitors and attract a growing segment of socially conscious consumers who prioritise trust, ethics and social responsibility.

Ultimately, the impact of tax transparency on policyholders' trust is multi-faceted. As transparency becomes embedded in the company culture and ethos, its impact on policyholders will likely strengthen, resulting in, *inter alia*, increased retention and positive word-of-mouth.

Another driving factor for this change is the impact of younger generations, such as millennials, as they amass greater wealth and influence. Their preferences are reshaping the investment landscape, encouraging companies to adopt more sustainable practices and driving insurers to offer a broader range of socially responsible investment options.

Investors

Investors are actively seeking out investment opportunities that promote sustainability, diversity and inclusion, ethical sourcing, support community development, uphold ethical business practices and ensure that all processes along the supply chain comply with the same ethical practices. One only needs to consider the boom in impact investing to see evidence of this or the corollary, the sell-off of companies that engage in exploitative labour practices, for example.

It is important to these investors that their investees are paying their fair share of taxes too and that any supply chains engaged are done so in a sustainable manner. Tax incentives can be used to reduce the costs of implementing socially responsible supply chains.

In conclusion, as environmental and social issues continue to gain prominence on the global stage, individuals and institutions alike recognise the potential for finance to be a force for positive change.

Employees

Employees are increasingly seeking employers who uphold ethical values and positively impact society. Not only can tax transparency improve the company's attractiveness for new prospective employees, but it can also improve its attractiveness for current employees. In the same way that prospective employees would seek out companies that align with their personal values, so too would current employees. Adopting transparent tax practices would send a strong message to potential candidates that a company prioritises accountability and integrity.

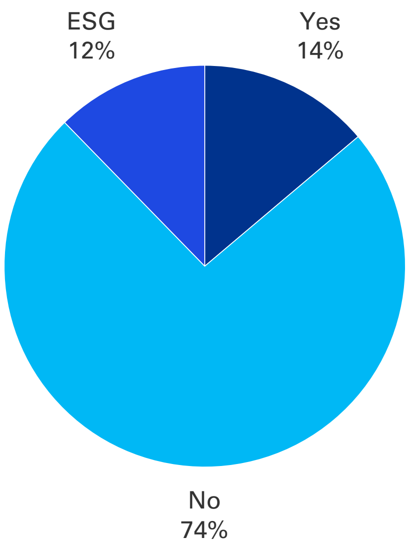
By making employees aware of the company’s tax contributions and the positive impact that employees can have on society through their job, tax transparency reporting can foster a shared sense of purpose and pride in working for a socially responsible organisation. Understanding this broader context of their work can foster a greater sense of ownership and responsibility for the company’s success.

South African tax transparency

We conducted a high-level survey of 65 insurance companies in South Africa with the aim of identifying how many have voluntarily issued a tax transparency report.

As can be seen in the graph below, and as expected (which is consistent with most industries), 74% (48 organisations) of companies did not provide any tax transparency information - whether in a formal tax transparency report or elsewhere in their reported information. Only 14% (nine organisations) of companies surveyed produced a report dedicated to tax transparency. The remaining 12% (eight organisations) did not produce detailed tax transparency reports but they did reveal their wider ESG contributions in a separate ESG report that was not tax specific.

Tax transparency reporting



We reviewed the nine tax transparency reports to gain insight into the kind of information and the level of detail that is being reported. The key themes in these reports are (i) tax strategy, (ii) tax governance, (iii) tax compliance and risk management, (iv) stakeholder engagement and (v) taxes paid. However, the reports showed vast differences in what was reported even though there is disclosure guidance in respect of voluntary tax reporting in the Global Reporting Initiative 207.

Tax strategy

This section generally considered the strategic priorities of a company as it relates to tax. Of the reviewed tax transparency reports, this segment tended to be quite sparse and would often refer readers to separate documents (such as policy principles or frameworks).

Tax governance

This section generally considered corporate management broadly and, in some cases, provided insight about who the responsibility for tax resides with at the insurer.

Tax compliance and risk management

The compliance and risk management sections included the structures in place to ensure compliance and ranged from internal control systems to internal reporting and whistleblowing hotlines for employees. They also tended to disclose that the company is compliant as at date of publication. While it is useful for the reader to know that these processes exist, it is not necessarily meaningful without insight into whether these processes work effectively. For example, while one tax transparency report indicates that the company has a tax compliance management system which is certified by an external auditor and renewed each year, some reports only refer to a review of tax compliance (with no indication of, inter alia, who reviews the compliance system or how regularly it is reviewed).

Stakeholder engagement

In these sections we saw the identification of stakeholders and the types of engagement that is undertaken with them. This included tax authorities, industry advocacy bodies, policyholders, communities and employees. While some reports clearly indicate the stakeholders and the company's engagement with these stakeholders, some only have references of "discussions with stakeholders" to allow the company to strike a balance between the interests of governments and companies as taxpayers. Some reports do not refer to these engagements at all. Much can be gained from a stakeholder engagement segment.

The amount of taxes paid is not necessarily an accurate reflection of social impact with reference to the fact that companies may utilise incentives or subsidies (thus paying less tax) to create significant social, economic and environmental value. Companies that do not currently report on this may want to consider adding it to their reports in future to provide a more holistic picture of their contributions.

Taxes paid

Some reports provided detail on the amounts paid (for example, how much of the tax paid is in respect of corporate income tax, capital gains tax and dividends tax on behalf of policyholders) while some just provide overall amounts. Some insurers chose to illustrate their contribution to the various categories as set out in the expenditure budget (for example, how much of the company's tax contributions would go towards funding learning and culture, social development, health, economic development, community development, peace and security and other categories). This is a useful feature of the report as it provides the information in a way that directly shows the impact that the company's taxes have on communities.

Missed opportunity

Based on the tax transparency reports we surveyed, there appears to be a missed opportunity whereby the tax transparency reports could be used as an instrument to show the "impact" that an organisation's taxes make to the economy and therefore the link between ESG and tax. For example, the use of tax incentives to help increase the number of employees that a company employs and thereby decrease unemployment in the country, or the extent to which renewable energy incentives are used to increase the amount of investment in renewable energy.

Conclusion

Tax transparency is essential to building trust and credibility among stakeholders. By willingly disclosing tax-related information, companies can showcase their dedication to ethical conduct, corporate responsibility and contributing to the welfare of society. Transparent tax practices can help differentiate insurance providers in a competitive market, attracting socially conscious policyholders, employees and investors who prioritise trust and social impact, driving positive change within the insurance industry and contributing to the broader goal of accountability.