



# FATCA

New reporting requirements for insurance companies demand for adaptations of business processes and IT systems

## Initial situation

The US Government is extending its regulatory framework in order to close gaps in its tax regime through FATCA, the 'Foreign Account Tax Compliance Act'. It is aimed to ensure transparency of assets of US persons (individual and entity accounts) and shall be achieved by expanding the reporting requirements for financial institutions based outside the US.

However, there are existing laws (e.g. data protection regulations) in various countries that impede the implementation of FATCA, which is why many governments are currently negotiating intergovernmental agreements (IGA) with the US. Such IGA may take into account country-specific issues. An IGA was reached between Switzerland and the US on 14.2.2013. Germany and the US signed an IGA on 31.5.2013.

## The challenge

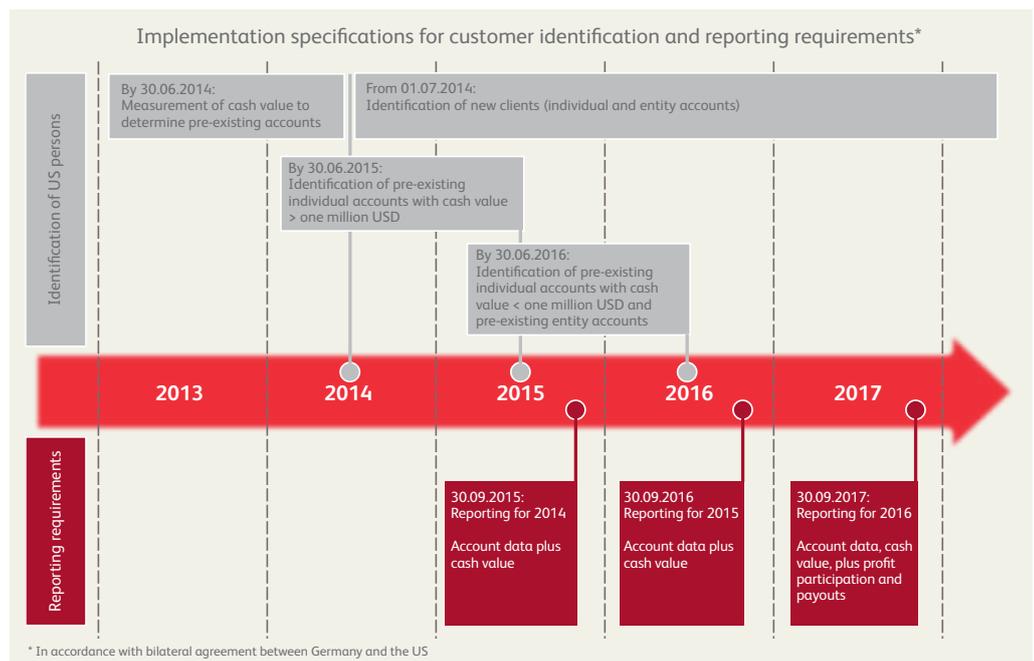
FATCA is an additional regulatory issue that urgently needs to be attended by insurance companies. Insurers are required to undertake the following measures:

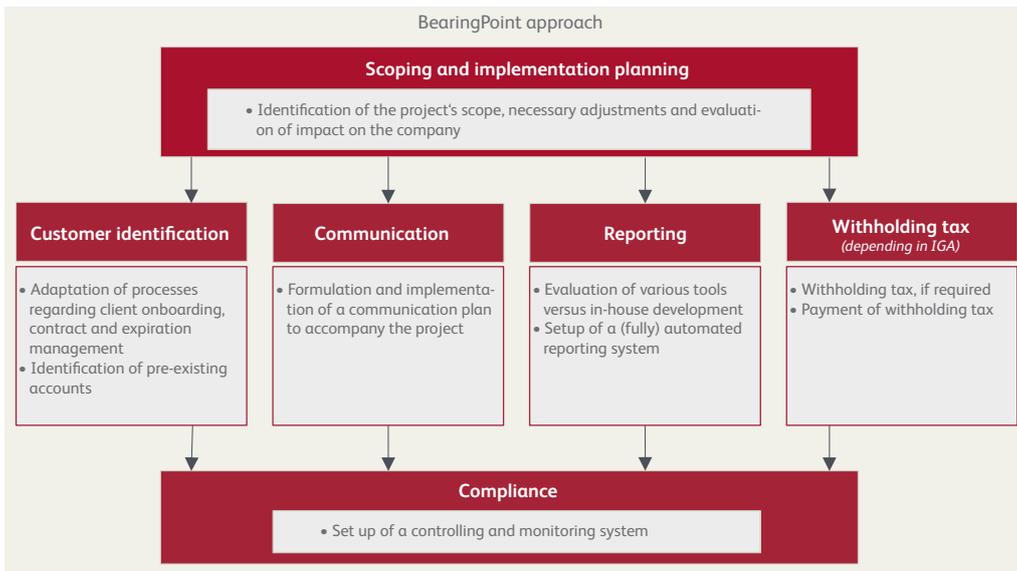
- Implementing processes and procedures to identify and monitor US persons;
- Identifying affected products and relevant thresholds;
- Adapting business processes to ensure continuous monitoring of status changes insofar as policyholders and beneficiaries are concerned;
- Reporting annually to the IRS or to a local authority for countries with intergovernmental agreements;
- Providing additional information about US accounts upon request by the IRS; and
- Establishing a compliance programme to support the responsible officer.

Insurance companies seeking compliance need to ensure their readiness to meet the new reporting requirements, specifically differentiating between US- and non-US-persons, to collect and report information on these persons and to ensure the withholding of 30 per cent on US sourced income, where applicable. The new requirements regarding identification of US persons are probably the greatest challenge due to the fact that, so far, neither relevant US indicia have been collected, nor are the systems set up to process this information. The client onboarding process has to be adapted, as well, to identify US persons at an early stage. Additionally, particular attention needs to be paid to the adaptation of reporting processes and systems.

Moreover, insurance companies must establish a monitoring system to identify all FATCA-relevant changes in the status of a policyholder. These changes will impact the day-to-day operations of an insurer and will require comprehensive changes of both internal processes and within the sales force. A meaningful change management programme must be an integral component of the implementation concept.

The final regulation specifies that there must be continuous monitoring of the identification process via a responsible officer, and that this must be supported by a far-reaching compliance programme. The responsible officer must send regular reports to the IRS to confirm adherence to the regulations or take measures to ensure continued adherence to the regulations.





## The BearingPoint approach

A directed preliminary study should prepare the way for the launch of the project and contribute to efficient implementation. Affected business segments, subsidiary companies, products, processes, etc. will be identified, a budget and timetable drawn up and the content of linked sub-projects planned. At the start of the project, it is necessary to identify US persons (individual and entity accounts) in the customer base and set up continuous annual checks. It is recommended to identify US persons as early as possible, preferably during the acquisition phase. A well thought-out communication concept within the company and towards customers is an absolute must in order to raise awareness among employees, customers and the sales force to encourage cooperation.

Integrating the new reporting requirements into an existing reporting system presents a further challenge and must be actively managed. It requires the implementation of the necessary processes and ensuring the provision and preparation of the data to be disclosed. If applicable, this also includes the retention and payment of withholding tax. Finally, a suitable controlling system must be established that enables continuous monitoring in order to immediately uncover FATCA-relevant status changes among customers and deal with them accordingly.

## Conclusion

FATCA requires additional measures to be implemented insofar as process management, reporting and compliance are concerned, necessitating comprehensive changes to IT systems. The deadline for initial compliance is 1 July 2014. The short implementation deadlines mean that immediate action is required. Insurers must redesign and implement their client onboarding processes by the middle of 2014. From 2014 onwards, insurers must be able to identify US persons amongst their customers. However, these activities are merely preparations for the full, new reporting process that needs to be up and running by 2015. Depending on the number and size of affiliated companies, such projects may last up to 24 months.

## About BearingPoint

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client's individual challenges. This adaptive approach is at the heart of our culture and has led to long-standing relationships with many of the world's leading companies and organizations. Our 3350 people, together with our global consulting network serve clients in more than 70 countries and engage with them for measurable results and long-lasting success.

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BearingPoint combines comprehensive business process expertise with in-depth knowledge of the reporting environment. We work closely with our clients to evaluate the strategic impact of FATCA on their global business and specific business activities, to assist them in determining actions needed to comply and to help them implement solutions required to facilitate the changeover and enable smooth future operations.

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