

Mr Rolf Diemer  
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DG TAXUD  
European Commission  
B-1049 Brussels  
BELGIUM

7 June 2006

Your reference  
Our reference

Dear Rolf

**Modernising VAT for Financial Services and Insurance**

I am pleased to enclose Lloyd's response to the European Commission's consultation paper on Modernising VAT Obligations for Financial Services and Insurance. If you would like any further comment or information please do not hesitate to contact us.

Yours sincerely

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Enclosure

**European Commission consultation paper:  
Modernising VAT obligations for Financial Services and Insurance**

**1. Introduction**

- 1.1 Lloyd's is a London-based international insurance market specialising in global property and casualty insurance and reinsurance. Taken together, Lloyd's 62 syndicates make it one of the world's largest commercial insurers and sixth leading reinsurer. In 2006 it has the capacity to underwrite insurance premiums of around €25 billion, gross of brokerage. Its business comes from over 200 territories worldwide, with around 40% from the EU, and tens of thousands of people are employed in jobs connected with the Lloyd's market.
- 1.2 We are pleased to have this opportunity to contribute to the consultation on modernising the VAT system for financial services and insurance, and our comments below concentrate only on insurance. We believe that it is necessary to update the Community VAT framework in order that it better reflects the modern commercial environment and business structures.
- 1.3 In particular, the VAT system should recognise the variety of ways in which insurance operations can be structured, and should not discriminate against the outsourcing of functions within the EU. Rather, the tax system should cater for a diversity of business models in a competitively neutral way, in order to support the overall competitiveness of EU enterprises.

**2. Lloyd's response: overall principles**

- 2.1 We support the following objectives that are set out in the consultation document:
- (i) updating the Sixth Directive to reflect current commercial realities;
  - (ii) giving certainty as to the operation of the VAT system;
  - (iii) limiting administrative costs of VAT both for taxpayers and governments.
- 2.2 We also support reducing inequalities or distortions in the operation of VAT. This should go hand in hand with making it easier for businesses to operate cross-border within the EU.
- 2.3 We agree that these objectives may best be achieved through EU legislation.
- 2.4 As noted above, we believe that the VAT system should not be a driver of business models, by favouring some structures and penalising others as it may currently do.
- 2.5 In this respect we would like one result of the consultation process to be greater clarity in relation to insurance related services, and a removal of any disincentive to outsource these. Smaller economic operators may not be able to draw on internal economies of scale and so may effectively be forced to outsource certain services in order to be competitive in international markets.

### **3. Lloyd's response: specific options**

3.1 We are pleased to comment on the specific options in the consultation paper.

#### *Zero rate insurance services*

3.2 The zero rate option would successfully address the issue of hidden irrecoverable VAT. It is also administratively simple, capable of uniform application and would effectively clarify issues around insurance-related services by providing full recovery of input VAT. We would favour a move to zero rate insurance, although we recognise that the feasibility of this option will ultimately also depend on how it fits with the overall scheme of VAT and on the exchequer effects of such a change.

#### *Extend insurance exemption*

3.3 If zero rating is not applied, updating and extending the insurance VAT exemption could successfully modernise the system and provide certainty and clarity of application while limiting administrative costs. We would support this option.

3.4 We would see it as important that legislators should clearly set out the scope of services which are related to the provision of insurance services and which should qualify for the exemption, irrespective of who supplies the service. This definition should include both those services which are related to the sale of insurance policies and services which are related to the administration of policies and the handling and settlement of insurance claims. This should remove potential competitive distortions as between those enterprises that rely largely on third party service suppliers and those that carry out such functions within the same enterprise or group.

#### *Uniform limited credit*

3.5 Although the uniform limited VAT credit option has theoretical appeal, we believe that it would be complicated, a significant change to existing systems and difficult to administer. For these reasons we do not find it particularly attractive.

#### *Option to tax B2B*

3.6 A selective option to tax on commercial business would address some but not all of the issues that are raised in the consultation paper. In particular, the B2B option could not deal with the issue of hidden VAT on personal lines business such as domestic households and motor insurance.

- 3.7 That said, we would have no objection in principle to the introduction of a B2B option, provided the administrative consequences were manageable. If this is taken further, it would also be necessary to clarify the proposed interaction between VAT on insurance and the various premium taxes and other parafiscal charges in member states: that is, it would need to be decided in each case whether the premium tax applied to the premium inclusive of VAT or excluding the VAT.

*Cross-border VAT entities and grouping*

- 3.8 Given the significant developments in business and in the internal market over the past 30 years, we agree that it makes sense to consider the VAT position for cross-border entities. In this area, as in others, the VAT system should support enterprises' ability to structure themselves efficiently across the EU. This is important both in order to provide fair competition within the EU and to help EU businesses compete effectively on the world stage.

**4. Conclusions**

- 4.1 Lloyd's supports the objectives underlying the consultation. It believes that the VAT framework for insurance should be updated to provide certainty and fairness of operation across different business models, and should not discriminate against outsourcing.
- 4.2 Of the options presented in the consultation paper, zero rating of insurance supplies would provide the simplest and best outcome measured against these objectives. If, however, this option is not favoured, we would urge the Commission and the member states to update and extend the exemption for insurance related services as we have set out above.
- 4.3 We will be pleased to discuss our comments with you, or to provide further input or information as the consultation process develops. Please do not hesitate to contact us if this is the case.

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