Protect savers and insureds!

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THE POINT OF VIEW OF DENIS KESSLER

“In the highly competitive Life insurance sector, any increase in transaction costs can only reduce the final returns for insureds.”

The road to fiscal hell is paved with good intentions, or to be more precise, with intentions setting themselves up as the moral voice of an era. This is the case for the projected taxes on financial transactions, with their supposedly ethical justification – penalizing the speculative comings and goings of merchant traders – which actually masks base budgetary objectives. Let’s not get caught up here in the theoretical discussions surrounding such a tax, which has, alas, reduced James Tobin to a concept that distorts his principles and from which he ceaselessly tried to distance himself before he died.

Let’s look instead at the actual impacts of a tax on financial transactions. In fiscal terms, the party directly taxed is not always the party bearing the real brunt of the tax. And in this particular case, it is obvious that such a tax would be passed on to the end financial services consumer. All existing saving products presuppose financial transactions, in order to optimize their profitability and to manage the guarantees that are often attached to them. If we consider the number one investment of the French, life insurance “in Euros”, the capital protection that typifies these contracts is extremely complex to manage, and is very costly. In this highly competitive sector, any increase in transaction costs can only diminish the final returns for insureds. In any event, managing the savings of every single saver necessitates a great deal of financial transactions over the long term, and a tax on financial transactions would weigh on the returns yielded by these savings.

In a more indirect way, traditional life insurance, top-up health insurance and property & casualty insurance would also be affected by the introduction of new levies on financial transactions. Insureds, both households and companies, are often unaware of this: when proposing a rate for life, health, motor, household or business interruption insurance, their insurer takes into account the financial revenue that the contract should generate over the average investment period of the premiums.
collected. When this financial revenue decreases, sooner or later the insurance premiums will rise. This is particularly true for certain insurance contracts like death, disability, long-term care, construction and third party liability, where the events covered occur on average a long time after the premiums were first paid. Once again, in these cases the insureds are the ones who would bear the increased costs of asset management.

All of this in an environment of depressed financial returns, negative cash flows for life insurance, and problems for many households in terms of making ends meet!

It would be better to abandon this tax project. At the very least, it is crucial that those whose profession is the management of risks – mutual insurance companies governed by the Mutual Insurance Code, provident societies governed by the Social Security Code, mutual insurers and insurers governed by the Insurance Code – be totally exempt from such taxation. Their financial management consists of protecting insureds from market fluctuations: it would be absurd to penalise them in the name of the fight against speculation!

Finally, a tax on financial transactions would be all the more inopportune for savings and insurance given that a massive increase in VAT is planned at the same time. The financial sectors pay VAT on their consumption but recover virtually none, as their services are generally exempt from VAT. Tax lovers need not worry, France has long favoured these activities with a VAT substitute in the form of a tax on salaries, which is far more penalizing. And let’s not forget all the taxes that put a strain on personal insurance: you only need to look at the related tax bills to see this! Consequently, even in exchange for a proportion of social welfare contributions, an increase in VAT will weigh doubly on financial services: they are net payers of VAT, so their direct costs will increase. For insurers, a major part of the damage that they cover will see price increases - this is already the case with the increase in the reduced VAT rate since the beginning of the year -, because what they give back to insureds (construction work, motor repairs, services etc.) will cost more.

Instead of thinking that every problem must have a fiscal solution, France should concentrate on its major challenge: how to spend less in order to reduce public debt and collect less taxes. And how to protect savers and insureds in a period of uncertainty.

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