


Tax insurance in emerging markets



Latin America: Quotes have been received and/or policies have been written for risks in Brazil, Chile, Mexico and Peru.

Brazil: A Brazilian tax risk for US\$200 million was recently quoted despite a related active tax dispute.

Africa: A healthy appetite exists for South African risks, but less so for other African countries.

Kenya and Ghana: Risks in these countries have been insured, but only in exceptional circumstances.

Middle East: Uncertainty persists in relation to the attitude of tax authorities towards new taxes, such as VAT and corporate income tax.

Saudi Arabia: Insurance terms were agreed for a Saudi Arabian risk in respect of non-resident capital gains tax.

Asia: Insurance for Indian tax-treaty risks is common, but we have also placed domestic Indian, Chinese, Indonesian, Korean and Vietnamese tax risks.

India: Marsh recently brokered a large Indian non-resident capital gains tax risk relating to the underlying valuation of the Indian assets.

Why have emerging market tax risks become more attractive for insurers?



Premium rate competition

More competition among insurers for developed country tax risks means premium rates have dropped significantly; however, the greater risks posed in emerging markets justify higher premium rates. As insurer confidence grows, the economics of these placements is becoming more favourable, and insurer appetite has expanded accordingly. With competition for these risks remaining relatively low, there may be opportunities for insurers prepared to enter this market. We generally see premium rates vary between 2.5% and 10% of the insurance limit for emerging markets depending on the jurisdiction and underlying risk.



Increased insurer experience

As insurers gain more exposure to risks in emerging markets, their knowledge and corresponding comfort levels have increased. Insurers are building networks of trusted advisors in various emerging market jurisdictions, which increases their understanding of the relevant tax regimes and enables them to quote some of these tax risks with confidence.



Greater tax authority reliability

In general, tax authorities in many emerging markets have become more sophisticated and predictable, with clear dispute-resolution mechanisms in place. Local tax laws have also been updated to remove uncertainties in application. These developments have helped create an environment conducive to tax insurance.

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